

Dear fellow investors, colleagues and friends,

Conserving Value in Heavy Static

*'My next match was Fixed Step. Not much problem, except for the judges. Many points that I won, the scorekeeper didn't record. This was infuriating but also hilarious. Imagine, the referee would signal that I'd won the point but the scorekeeper would neglect to write it down as if he'd forgotten or hadn't noticed. This happened again and again. My teammates and father were screaming about it, but nothing was done except that officials would nod to them with placid smiles. It happened to every foreigner in the tournament, sometimes decisively. This was the way they kept score here. Their country. Nothing to do but score more points and keep the static out of my head.'*¹

The opening quote is from former chess and martial arts champion Josh Waitzkin's book *'The Art of Learning'*. Towards the end of the book Josh recounts the series of Tai chi matches in Taiwan that culminated in him winning the World Championship in 2004. He describes the home team advantage that the officials gave local competitors through their scoring system and associated mind games as a form of static—a distraction that he couldn't do anything about but with the right focus it could be short-lived. Earlier in his chess career Waitzkin experienced a series of dirty tricks including seemingly gifted young chess players trying to distract him by kicking him under the table during matches. To master chess and Tai chi to the highest level Waitzkin was obsessive about learning and focus. Many of his techniques are applicable to the world of investing—his idea of *'investing in loss'* really resonated with me—especially earlier in my career where I was able to invest in a myriad of different businesses and experience my share of losses. With the right mindset the arrows in our backs can be our best assets—they should be mentally capitalised on our internal balance sheets, not brushed under the carpet and forgotten about. In previous letters we have written about the difference between expiring information and long-term knowledge and the flotsam and jetsam of information that is often only a wave deep. In many ways these concepts are similar to Waitzkin's static. Static electricity is an imbalance of electrical charges that is typically fleeting and unstable—it is the opposite of current electricity which transmits energy. Of course the investing world is full of static—information that can distract us if we let it—we are best keeping it out of our heads. The investment community's current obsession with the inevitability of rising inflation and the rotation from growth to value are two examples of static that, like Waitzkin's Tai chi judges, we can't change—all we can do is remain comfortable with an investment approach that we expect to generate value for our investors long after the static has dissipated. When faced with static and expiring information we think it's important to remind ourselves of one of the most important principles in investing—the Law of Conservation of Value. Although it's easy to forget the value of an asset is the net present value of its future cash flows. The Law of Conservation of Value states that anything that doesn't change an asset's expected cash flow or the riskiness of those cash flows doesn't change its intrinsic value. At its simplest the value of an asset is as follows:

$$\text{Value} = \text{The Sum of: } \frac{\text{Future Cash Flows}}{\text{Discounted at the Cost of Capital}}^2$$

When faced with new information on the static airwaves it's worth remembering this reality—if that information doesn't materially change a company's cash flows or the riskiness of the business model that produces these cash flows, then it is immaterial. With this in mind, as we have mentioned on numerous occasions, it is crucial to look at these impacts on as long a time period as possible—using our standard discounted free cash flow framework³ more than 85% of a growing company's net present value lies outside of the first two years in the future. Although investors obsess about most new information the following scenarios can have a negligible impact on the value of an asset:

- An acquisition when the premium paid to fair value equals the net present value of future synergies—regardless of the headline earnings accretion or dilution.
- Internal investment, such as R&D, that doesn't generate a positive net present value irrespective of the amount that has already been invested.
- Regulatory scrutiny of an asset that generates a de minimis percentage of a company's free cash flow.
- Management buying back equity when the company's shares trade close to net present value in a low interest rate world.
- A new CEO or CFO without a definitive change in strategic direction.

¹ Josh Waitzkin, *The Art of Learning*.

² The full formula for the Law of Conservation of Value is the following with the term $E[CF_n]$ being the expected cash flow in year n : $\text{Value} = \sum_{n=1}^N \frac{E[CF_n]}{(1+r)^n}$

³ Our standard 10/10/3 DCF is based on 10 year forecast period, 10% cost of capital and 3% terminal growth rate.

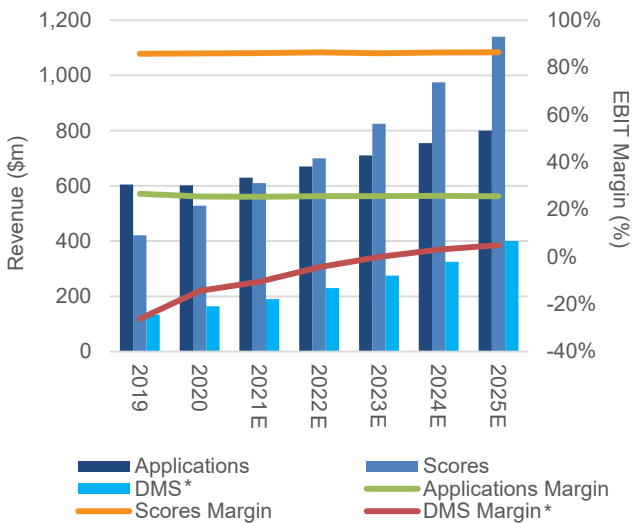
In many ways the start of 2021 has been heavy with static—the SPAC boom, a retail trading frenzy and notable investors suffering huge losses have distorted certain asset prices. In addition so have the current topics du jour of the attractions of value over growth investments, a discussion that we find myopic, and inflation expectations. In nearly all of these instances asset prices might have changed but their underlying value has not—especially for investors who use a through-cycle cost of capital.⁴ Armed with a grasp of the Law of Conservation of Value we aim to exploit these moments of inefficiency in equity markets as investors become overwhelmed by static and expiring information. Accordingly this ambition remains the *raison d'être* of this investment letter as we explore two companies, one new addition and one we re-underwrote, that we increased our investors' exposure to in the first few months of 2021.

Fair Isaac Corporation (\$15bn Mkt. Cap. & 7.5% NAV)

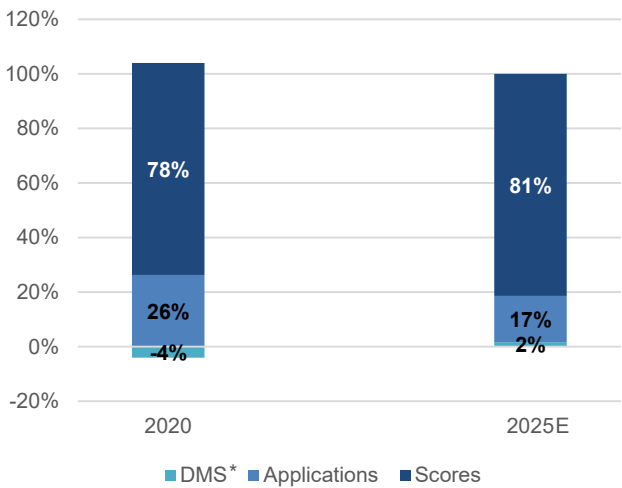
Fair Isaac Corporation (FICO) was founded in 1956 by engineer Bill Fair and mathematician Earl Isaac with the aim of performing analytics for lending institutions in the US. In 1989 the company launched the FICO Score which over the last 30 years has become the default measure by which US banks and lenders assess credit quality. At its core the FICO Score (78% of profits) is an algorithm that is fed by data from the three largest credit bureaus, Equifax, Transunion and Experian, who in turn distribute it in their credit reports. The FICO Score is a single three digit number (from 300 to 850) that signifies the creditworthiness of any borrower (the number is positively correlated with creditworthiness) and it is an example of a benchmark—a standard metric that becomes the default yardstick for measurement in certain applications. Successful benchmarks need to be seen as impartial and trustworthy and they have to be ubiquitous. FICO management have deliberately focused on making the Score ubiquitous—most recently when in 2013 they started allowing credit providers to disclose FICO Scores to consumers at no additional cost under their Open Access program. Accordingly credit card holders at companies like Discover became used to seeing their FICO Score on their statements. Today the FICO Score is so firmly embedded as a benchmark in the US financial system that it has 90% share of credit scoring across credit cards, auto loans and mortgages and it was even referenced by Ryan Gosling's character, Jared Vennett, as evidence of the poor credit quality of subprime mortgages in the infamous Jenga scene in the film *The Big Short*. FICO monetises this benchmark by charging the lending institution a de minimis fee, that is passed onto the consumer, in certain key events in which the Score is used—typically in marketing, loan inquiry and origination. The Score is so integral in this process that it wouldn't make sense for a bank to switch to a less widely used score in its risk management process given how many millions of borrowers they have in their system. Using the analogy of another benchmark the FICO Score is like owning the rights to the mile and getting 2-3 cents every time someone uses Google Maps or Waze for directions.

Source for data: Company information

FICO Revenue and EBIT Margins



FICO Profit Contribution (%)



*Decision Management Software (DMS)

Source: Company data and Brown Advisory calculations/estimates. Past performance is not indicative of future results and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for important disclosures.

⁴ We use a 10% weighted average cost of capital for developed markets.

In 2020 Scores (see above) accounted for 41% of FICO sales but 78% of profits⁵ as the business enjoys royalty-esque operating margins of 86%. Looking at this another way approximately 200 people work in the Scores business at FICO which generated \$529m in revenue in 2020 for producing the benchmark on which trillions of dollars of lending decisions were based in the US and elsewhere. Accordingly there is limited incremental cost for running the algorithm that drives the benchmark. The remaining 22% of FICO profits are derived from their software assets which are predominantly their single use software applications, called Applications, and their currently loss-making Decision Management Software (DMS) business. In Applications key products include fraud protection and compliance product Falcon, which enjoys roughly 2/3 market share in the US, customer application manager Triad and their consumer communication products. Like the FICO Score these applications are mission critical to lenders and are baked into their workflows. The company has used these positions in recent years to develop their Decision Management Software (DMS) business. FICO is currently moving its applications and components onto a modern decisioning platform that is cloud-based and open loop that lets lenders not only use their existing FICO products, like Falcon and Triad, but also plug in their existing risk models and products. Although the company is still very early in developing their decision management platform, after having spoken to numerous customers we feel that FICO's existing products and open-loop approach give it a decent chance of capturing the multi-billion dollar decisioning opportunity in financial services, currently 70% of the combined application and DMS businesses, as banks and lenders modernise their systems and reduce the number of individual vendors. We also expect the company to re-segment the Applications and DMS business units once the cloud transition is complete which will shine a light on their growing decision management platform business which we expect to grow at double-digit rates in the future. Despite the significant optionality that FICO has in its software business through its cloud migration and investment in decisioning management we still expect Scores to remain the core of the group's economics (+80% cash flow) for the medium term as we expect the Scores business to grow profits at a compound rate of 17% 2020-25. For now we believe software provides significant long-term optionality, especially in financial services.

So whilst we believe that FICO has a number of attractive attributes we only invested in the company in March 2021 after it had passed through the rigorous Global Focus investment selection process. We aim to invest our clients' capital in companies that we believe have dominant business models—effectively monopolies and duopolies that are protected by a fortress of economic moats and real pricing power. These businesses are akin to modern utilities—we believe it is very hard to operate in certain industries or geographies without consuming their goods and services but unlike classic utilities regulation is not an impediment to improving returns and innovation fosters long-term growth. FICO's Scores businesses and parts of software, such as Falcon, have effective monopoly positions. In addition we feel that the main economic driver of Scores gives the company at least four economic moats that combine to create a fortress that entrenches FICO's position. We define them as:

1. **Economies of Scale:** As we saw in the margin profile of Scores there is virtually no incremental cost of producing each Score which enables the company to invest in new product innovations, such as FICO XD for borrowers with no credit history or the UltraFICO Score that uses data from checking or savings accounts.
2. **Intangible Assets:** We believe that the FICO Score has significant brand value, as evidenced by its cameo in the Big Short, and other intangible value in regulatory capture. In 2012 the Consumer Financial Protection Bureau (CFPB) in the US issued a directive stating that consumers should not rely on lower quality 'educational scores' produced by other providers which effectively anointed the FICO Score as the trusted benchmark in the consumer credit market. Elsewhere the Federal Housing and Finance Administration (FHFA) require a FICO Score for any mortgage that is backed by one of the government agencies, such as Fannie Mae and Freddie Mac. This added further regulatory capture for the FICO Score and cemented its position as a benchmark that enables liquidity in the US mortgage market.
3. **Network Effects:** We also believe that the FICO Score benefits from network effects—in essence the more banks use it, the more end customers rely on it, and then more banks use it creating additional nodes on the network. This virtuous circle means that other participants in the lending ecosystem, such as securitisers, are inclined to use Scores as a benchmark and get pulled into the network.

Source for data: Company information

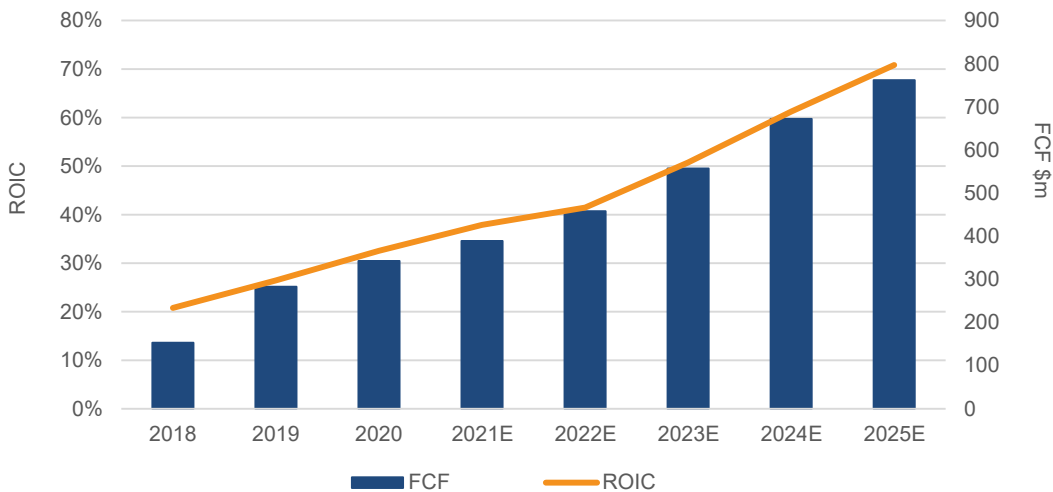
⁵ Pre-central costs.

4. **Switching Costs:** Lastly there are multiple switching costs of using an alternative to both Scores and some of FICO's software applications. Firstly switching to an alternate score would require effective rearchitecting a bank's credit system including their inventory of outstanding loans. In addition switching to a credit score that isn't the industry benchmark with less ubiquity could create obvious credit and liquidity risks for any institution that made the switch—all for a few cents that is ultimately passed onto the consumer. Switching costs act in combination with the other moats to prevent new entrants coming into the credit scoring space—we believe this is another reason why the main competitor to the FICO Score the VantageScore, that was started by the main distributors of the FICO Score the credit bureaus in 2006, has failed to gain significant share in mortgages, auto loans and credit card lending.

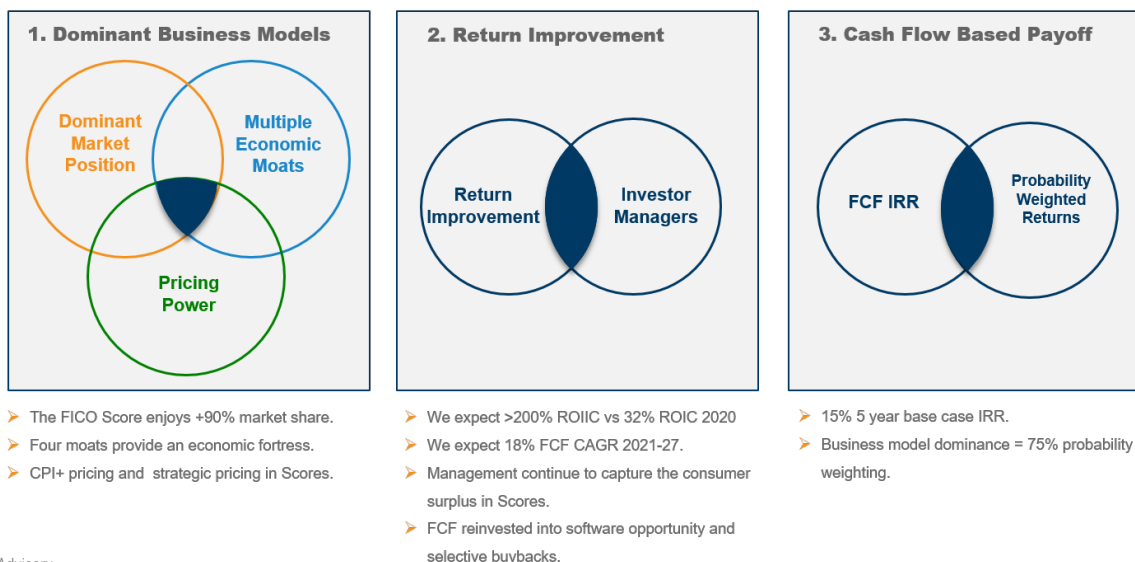
The final piece of the dominant business model jigsaw puzzle that we require for the Global Focus strategy is pricing power. In Scores and Applications FICO have a history of capturing inflation linked (CPI) pricing but in recent years, under the existing management team, the company has pursued a strategic pricing initiative in Scores. Given the importance of the Score to the lending process in the US management felt that the Score was significantly under-monetised and started raising prices in 2018 in mortgages, followed by auto loans in 2019 and credit cards in 2020. This belief is based off the incredibly low ticket price of the FICO Score relative to the huge consumer surplus that it provides to both the lender and the borrower. Our understanding is that the average price per Score is 2.8 cents and the average Score used in a mortgage application is 50 cents. Lenders are required to pull three credit reports for each origination each with a FICO Score—\$1.50 (3 x 50c) is a rounding error on the \$6-10k cost of originating a mortgage in the US. No FICO Score is priced above \$1 today with several billion Scores being sold each year at less than 1 cent. For the first 20 years of the FICO Score's existence the company didn't materially change the price and we see a long-runway for price-lead growth as they capture some of the huge consumer surplus that has existed for historical reasons. Going forward we expect a combination of volume growth through credit creation, product development and pricing on a largely fixed cost base to continue to drive 17% compound annual profit growth 2020-25 in the Scores business which in turn should drive incredibly high incremental margins and returns for FICO. Indeed this combination, turbocharged by strategic pricing, gives us confidence of continued return improvement and free cash flow growth for FICO for the foreseeable future as you can see below. This improving return profile has been facilitated by the current management's pricing strategy at Scores and, after some scrutiny and multiple discussions with customers, we feel comfortable of the investment they are putting into the software business given the potential optionality that comes from capturing a slice of the multi-billion dollar decision management market.

Source for data: Company information

FICO Free Cash Flow and ROIC



Source: Company data and Brown Advisory calculations/estimates. Past performance is not indicative of future results and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for important disclosures.



Source: Brown Advisory.

Our approach to investing centers on the belief that equity markets are inefficient over short time periods but more efficient over longer time periods—it's the primary reason why we appraise any investment over 5-10 years. Accordingly it's very hard to try and second guess the mood of Mr. Market over short time-frames. Nevertheless our opportunity to invest in FICO came on 5th March 2021 when FICO shares were weak due to a combination of investor concerns over the pressure that weak mortgages volumes would have on Scores growth in 2021, the aftermath of FICO's first quarter results where applications revenue declined 11% due to the transition from licenses to subscription in some of their products and the aforementioned predilection for lower quality 'value' companies. In isolation or combination we do not believe any of these reasons should worry the long-term investor and we viewed the share price weakness as an opportunity to buy a dominant business model with improving returns at our targeted underwriting level of a 5 year 15% base case IRR. If we are proved right on the 15% base case IRR, we stand to double your investment in FICO over 5 years—a scenario that crucially includes no material success in the company's decision management platform strategy. Perhaps the last word on FICO should go to where we could be wrong. In our teardown framework we always perform a pre-mortem for each investment and pose the question: *'If this investment was to be a complete disaster in 5 years what are the top 3-5 reasons why that would be the case?'* I think it's important to share the answers to this question with our investors which for FICO were the following:

1. Pricing power in Scores is not as strong as management think especially outside of mortgage origination (50% B2B Scores volume).
2. Regulatory intervention allows the VantageScore to take share—hastened by the recent Department of Justice investigation into FICO Scores and the upcoming Federal Housing Finance Agency (FHFA) credit score review.
3. Banks are comfortable embracing alternative data for credit decisioning.
4. Overzealous investment in Decision Management Software in an industry with long sales cycles.

For Scores these risks coalesce around the two primary threats for any benchmark—regulatory intervention and technological obsolescence. Although regulation can entrench a benchmark's position a change in regulation can take it away. The ongoing demise of the London Interbank Offered Rate (LIBOR) is a notable example of a benchmark where regulators, led by the UK's FCA, decided to make a benchmark redundant as a yardstick of value. LIBOR is to be phased out from the end of 2021 in the wake of manipulation scandals. As investors in monopolies we remain paranoid about regulatory intervention for any of our businesses and feel that it is manageable for FICO. The company has recently been scrutinised by the Department of Justice for anti-competitive behavior with the case being closed nine months after it was opened. Elsewhere in the mortgage market the FHFA are currently reviewing the role that the FICO Score has as the default metric for US government agencies Fannie Mae and Freddie Mac. After having spoken to various lending institutions we think that even if the VantageScore was an optional alternative to the FICO Score it is still unlikely to gain material market share from the FICO Score given the network effects and switching costs I touched on earlier—our belief is that banks have little appetite to switch. We currently ascribe a low probability to the VantageScore being recommended as a replacement for the FICO Score by the FHFA but nevertheless we continue to monitor the various permutations of the review. The threat of technological obsolescence to the FICO Score as a benchmark is ever present—in this instance the FICO Score could remain the dominant credit score but other technological innovations supplant credit scoring in the risk assessment process for the lender. We have spent a considerable amount of time examining the threat of alternative data, which FICO itself uses in its products, and the risk assessment practices of the new lenders in the buy now pay later (BNPL) space. Through this work we remain comfortable with the position

of the FICO Score as the default benchmark of consumer credit quality in the US—not least as the average price of a score is 2.8 cents and it can be used in conjunction with alternative data to appraise credit risks that are multiples of the price of the Score. The Fair Isaac Corporation is the third new investment in the Global Focus strategy since inception nearly four years ago, and although we remain paranoid about these risks we were fortunate that Mr. Market gave us the opportunity to invest in this high quality asset with an engrained and under monetised benchmark at its core when we saw a 15% 5 year base case IRR on our numbers.

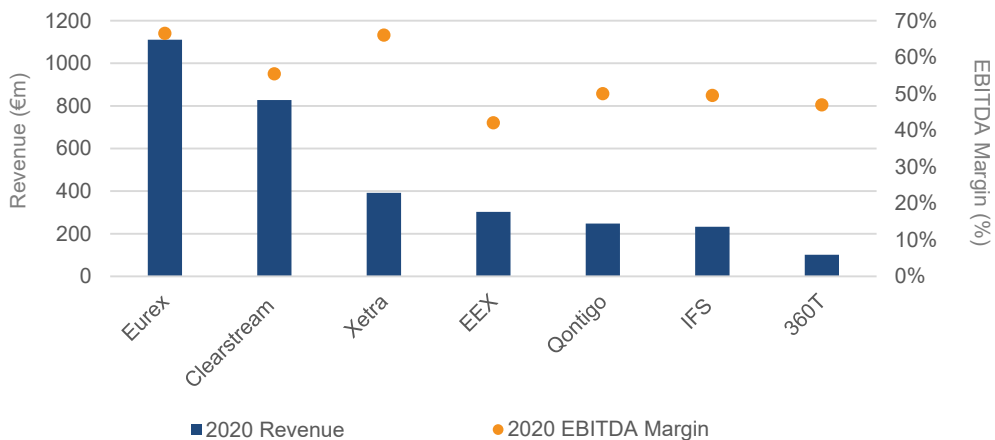
Deutsche Boerse (\$33bn Mkt Cap & 8.5% NAV)

We have held Deutsche Boerse since the inception of the strategy in 2017. In many ways we believe Deutsche Boerse's two key assets epitomise the idea of a modern utility—essential pieces of infrastructure with return profiles that aren't hamstrung by regulation. Eurex is Europe's dominant futures exchange with an effective monopoly position in certain contracts, such as index and interest rate futures, that are non-fungible, cleared by Eurex and protected by a fortress of economic moats that are entrenched by regulation. Eurex's clearing house acts as a circuit breaker in the financial system and our belief is that regulators actively don't want a competitor that could ultimately compete by taking on more counterparty risk. Deutsche Boerse's other key asset is Clearstream—one of the two dominant central security depositories (CSDs) in Europe and it competes with Euroclear. CSD's work on a book entry system whereby securities can be transferred in electronic, rather than physical, form and benefit from natural economies of scale, network effects and are frequently highly regulated—indeed both Clearstream and Euroclear offer collateralised lending and have capital requirements imposed on them by the regulator. Clearstream provides post-trading custody and settlement services and has an effective monopoly in Germany (+90% share) and they clip annual custody fees for the billions of Euros of securities that are held in the depository. Over the last decade Deutsche Boerse has diversified its business, in many cases leveraging economies of scope, into new products and services such as currency (360T), power (EEX), Investment Fund Services, data (Qontigo) and most recently ESG with the acquisition of ISS.

Source for data: Company information

Deutsche Boerse: Revenue and EBITDA Margins

As of December 31, 2020



Source: Company data. Past performance is not indicative of future results and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for important disclosures.

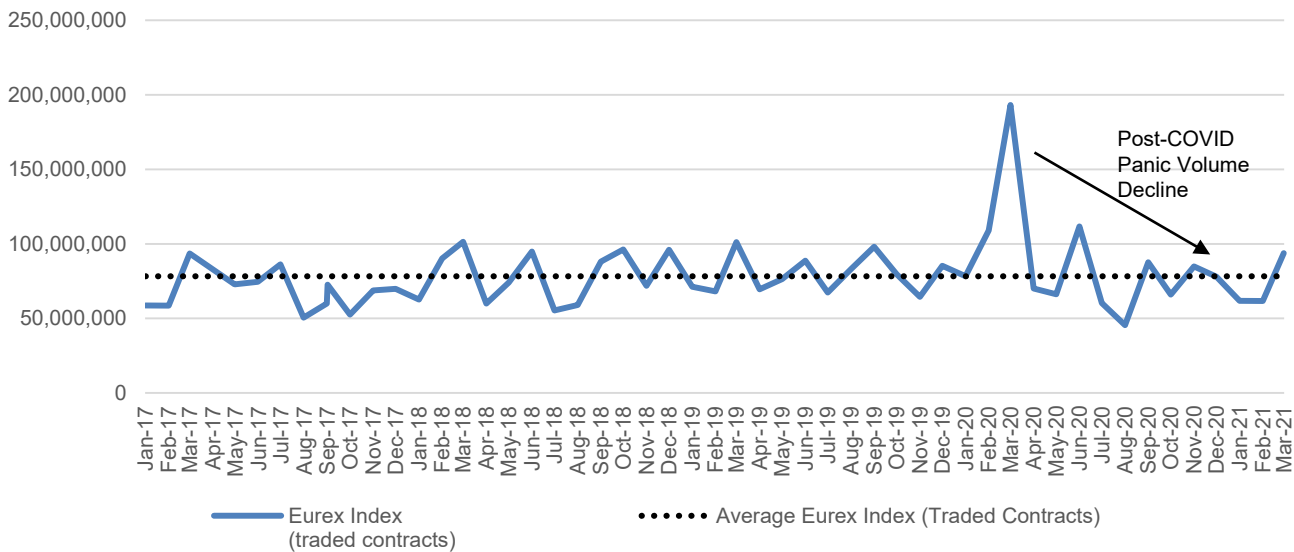
We remain encouraged by a number of these structural growth initiatives with many benefitting from the development of securities markets and the move from over the counter (OTC) to on-exchange trading. Deutsche Boerse's power exchange EEX is such a beneficiary with counterparties, many of which are the same banking customers that use Eurex and Clearstream, realising significant capital savings. In addition we expect the volume and complexity of EEX's products to continue to increase as the European power markets decarbonise and move to renewable generation sources with more volatile output than conventional generation. Elsewhere we recently had an encouraging meeting with Clearstream and Investment Fund Services (IFS) head Stephan Leithner. At its core IFS is a two-sided platform, called Vestima, that's based on Clearstream infrastructure that serves as a depository for asset managers in the upstream and a distribution network for wholesale customers in the downstream through the Clearstream Fund Centre. Through scale and the Vestima infrastructure IFS enjoys a 50% cost advantage vs peers which it can pass onto its customers who access buyers on the other side of the platform. We expect Deutsche Boerse to continue to develop the IFS network further through acquisitions and

Source for data: Company information

partnerships. The purchases of UBS Fondcenter in 2020 and Swisscanto in 2018 are great examples of how they have brought further network effects and cost advantage to the platform. In our base case we expect EEX and IFS to grow revenue at >5% and 10% respectively for the foreseeable future and believe that the company should be able to achieve its 5% structural revenue growth ambitions.

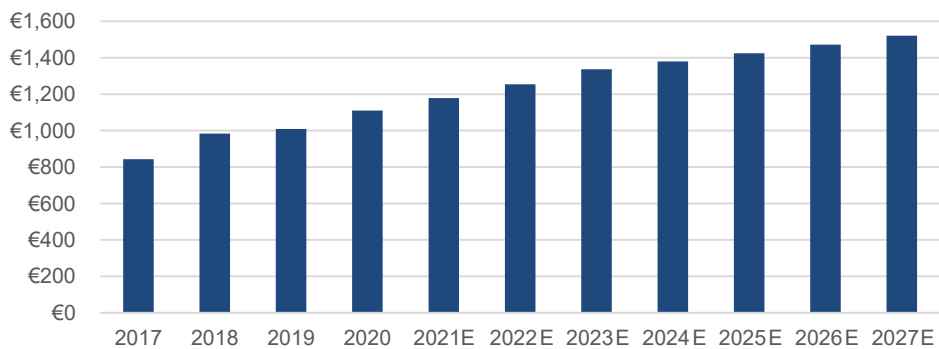
Eurex Index (Traded Contracts)

As of March 31, 2021



Source: Company data.

Eurex Revenue (€m)



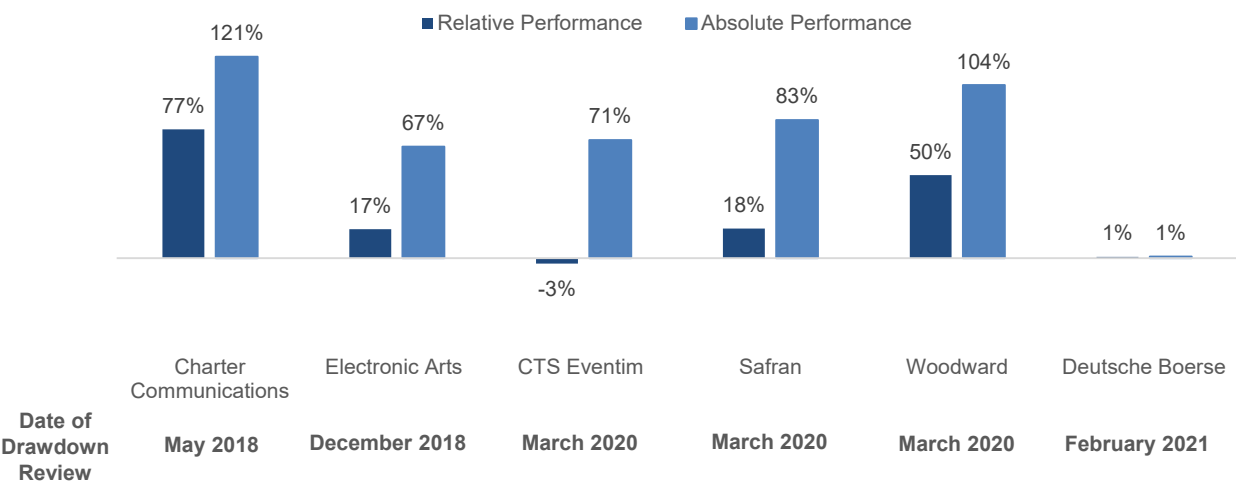
Source: Company data and Brown Advisory calculations/estimates. Past performance is not indicative of future results and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for important disclosures.

In February 2021 we conducted a Deutsche Boerse drawdown review after the company's shares underperformed by more than 20% over a rolling 12 month basis. Like I discussed with FICO, it can be fruitless trying to find method to Mr. Market's madness, but after having spoken to other investors, we believe that the prime reason for the relative underperformance stemmed from concerns around the impact that low volatility would have on equity index volumes at Eurex. These products account for 17% of revenue for Deutsche Boerse and we estimate 25% of profits with expectations being that this part of the company's economic engine would be impacted by low volatility causing market participants to use less equity index derivatives to hedge their positions. The first quarter of 2020 was a record for equity index volumes (see above) as investors sought protection when the COVID-19 pandemic came to Europe. We view investors' concerns about temporary factors, such as short-term comparative numbers, as opportunity—especially in Eurex's case as volumes have historically been mean-reverting and we expect structural revenue and cash flow growth at Eurex (see above) to come from new products, such as Euro-denominated interest rate swaps, and pricing. During our drawdown process we added to our position in Deutsche Boerse as we saw an attractive 14% 5 year base case IRR—based on a scenario that crucially included no cyclical growth. Heightened volatility at Eurex or rising net interest income at Clearstream, due to higher interest rates,

could add further upside to this 5 year IRR. We saw this weakness as an opportunity to increase our exposure to two pieces of valuable European financial infrastructure, in Eurex and Clearstream, with structural growth options in its EEX, IFS, 360T, Qontigo and ISS assets. The Law of Conservation of Value is applicable to the impact that volatility has on Eurex's volumes and ergo Deutsche Boerse's cash flow. Assuming volatility mean reverts, as we expect it to, the current environment should have minimal impact on the long-term value of Deutsche Boerse—a reality that we feel many short-term investors had overlooked. Deutsche Boerse joins Charter, Electronic Arts, CTS Eventim, Safran and Woodward on the list of companies that have been subject to drawdown reviews since the strategy's inception. Below you can see the performance of each company after we added to our investments.

Performance of our investments after adding following a drawdown review

Since Drawdown Review to March 31, 2021



Source: Brown Advisory calculations. Past performance is not indicative of future results and you may not get back the amount invested. The primary benchmark is the FTSE All-World Developed Net Index. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for additional information and for a complete list of terms and definitions.

And Finally...

Coming full circle to the Law of Conservation of Value I wanted to finish this letter by touching on where we see long-term value within the Global Focus strategy. As mentioned the investment air has been heavy with static in the first few months of 2021. Against this backdrop we are excited about the long-term value that we see within the strategy. On our base case estimates Global Focus trades on a weighted average free cash flow yield of 9.4% (or 10.6x EV/FCF) in 2026 (see below) which, assuming equity markets value our companies on today's projected 2021 free cash yield of 4.4% in 2026, gives an implied 17% 5 year IRR. We think this is great value for the level of risk to which we are exposing our investors. The companies we seek are dominant business models, the aforementioned modern utilities, which face limited competition and have the opportunity to compound their cash flows forward for many years in the future. We are pleased that the static airwaves enabled us to buy FICO and add to Deutsche Boerse this year and we look forward to catching up with you and discussing either investment, or anything else, at the next available opportunity.

Best,

Bertie Thomson

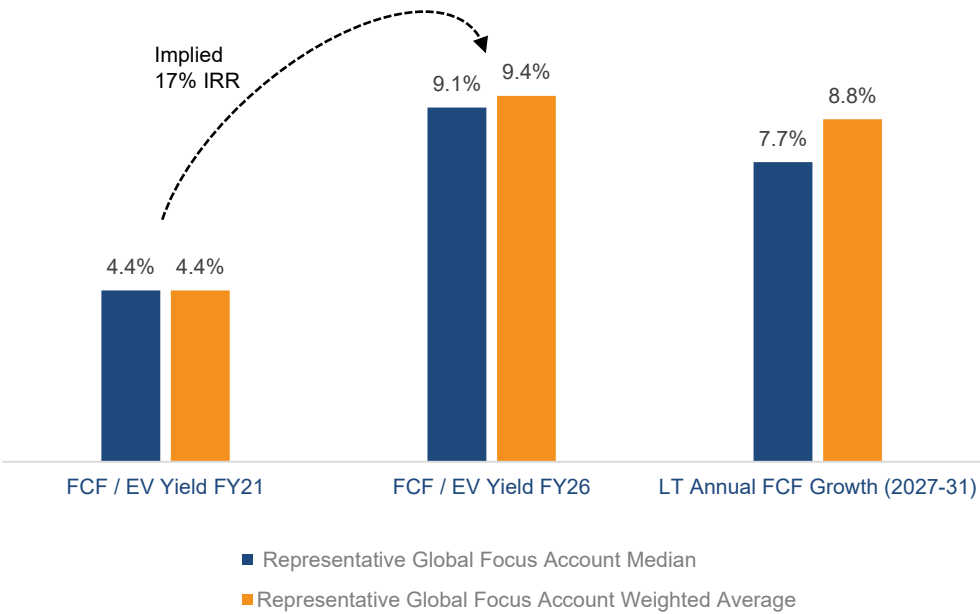


Bertie Thomson, CFA
Portfolio Manager



Mick Dillon, CFA
Portfolio Manager

Improving economics driving FCF-based upside review
Global Focus Representative Account as of March 31, 2021



Source: FactSet® and Brown Advisory calculations. Past performance is not indicative of future results and you may not get back the amount invested. Characteristics include cash. The implied 17% IRR is gross of fees. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Performance statistics are based on the Global Focus Composite net of fees since inception on 1st September 2017. Please see the Brown Advisory Global Focus Composite disclosure at the end of this presentation for additional information and for a complete list of terms and definitions.

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.

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.

Factset® is a registered trademark of Factset Research Systems, Inc.

FTSE Russell® calculates a series of net-of-tax total return indexes where withholding tax is deducted at either the maximum rate (the rate that applies if a non-resident investor is unable to take advantage of any double taxation treaties), or the rates that apply in the presence of applicable double taxation treaties. The latter depend on the type of investors as well as on their tax residence. FTSE Russell® currently calculates standard net-of-tax indexes for two such investor types: a US Regulated Investment Company (RIC) and a UK pension fund. The FTSE All-World Developed Index is a market-capitalization weighted index representing the performance of large and mid cap companies in Developed markets. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization. FTSE® is a trade mark of LSEG and is used by FTSE under licence.

The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries. With 1,632 constituents, 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.

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 $(\text{EBIT} + \text{Operating Leases Due 1-Yr}) \times (1 - \text{Cash Tax Rate})$ 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.

ROIIC is calculated by dividing a company's constant rate incremental operating income (plus depreciation and amortization) by the constant rate-weighted average-adjusted investment capital. The ratio is expressed as a percentage.

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.

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.

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

Earnings before interest and taxes (EBIT) is an indicator of a company's profitability. EBIT can be calculated as revenue minus expenses excluding tax and interest. EBIT is also referred to as operating earnings, operating profit, and profit before interest and taxes.

EBITDA, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances.

Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

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)*
2019	42.7	42.1	27.3	N/A	N/A	Five or fewer	N/A	12	42,426
2018	3.4	2.9	-9.1	N/A	N/A	Five or fewer	N/A	4	30,529
YTD 2017**	3.7	3.5	8.1	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, 2019. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

- *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.
- 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.
- The Composite creation date is June 1, 2020. The Composite inception date is September 1, 2017.
- The benchmark is the FTSE All-World Developed Index. This index is a market-capitalization weighted index representing the performance of large and mid cap companies in developed markets. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization. "FTSE®", "Russell®", "MTS®", "FTSE TMX®" and "FTSE Russell" and other service marks and trademarks related to the FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
- The composite dispersion presented is an equal-weighted standard deviation of portfolio 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.
- Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. The standard management fee schedule is as follows: 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.
- 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).
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
- 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.