

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Beaten Down Valuations Create Buying Opportunities in U.S. Healthcare



NICK KIRRAGE is a Partner and Portfolio Manager in the London office of Brown Advisory. He is a seasoned institutional investment manager, with over 20 years' experience. He joined Brown Advisory in October 2025 from Schroder Investment Management, where he was head of the Global Value Team. During his time at Schroders, Mr. Kirrage co-founded and helped build out the firm's value investing team and capabilities. He developed, managed, and marketed several key products, including Schroders' flagship Global and International Value strategies. He also led the development of Schroders' Value ESG franchise and contributed to the firm's broader equity strategy through his position on the Equity Management Committee. Earlier in his career,

Mr. Kirrage worked as a pan-European investment analyst covering sectors such as mining, chemicals, transportation, support service and aerospace & defense. He began his career in 2001 after graduating with a first class honours degree in Aeronautical Engineering from the University of Bristol.

SECTOR — GENERAL INVESTING

TWST: You joined Brown Advisory just about a year ago.

What stands out for you about the firm's overall business and general investment philosophy that you would note for readers?

Mr. Kirrage: There are a couple of big things. One is the obvious of moving from working for a public-listed business to a private, majority employee-owned business. That feels very different; I knew it would. It was part of the decision I made to come here. I really wanted to work somewhere that was private and independent, and taking a long-term view in an industry that was changing pretty quickly with a lot of short-term pressures.

It feels a very entrepreneurial place. It's the same size in assets as the business I worked at before, Schroders, when I joined it in 2000. I'm thoroughly enjoying having the freedom and the ability to develop the business with an eye on the long term and really focused on clients.

The second thing is the origins of the business are U.S.-based. In my previous career I'd been somewhere that had a very U.K.-based focus; the vast bulk of the people, the assets, and the orientation were legacy U.K. and Europe. That gives you a very different perspective and mindset. I'm really enjoying that perspective.

The final thing I'd say is here, the asset management arm of this business is the smaller part of the firm, but it remains a very significant part alongside a larger high-net-worth, private client business. And that, I think, is really nice, because it enables you to be really close to clients and understand what they're doing, what they want. Shortening that distance

between the investor and the end client was another thing I really wanted to do, which works very well, I think.

TWST: Among the things you've been busy doing is launching, earlier this year, both the International Value and Global Value strategies. Could you tell us a bit about them with a snapshot of the strategies and what the portfolios look like?

Mr. Kirrage: Philosophically, identical. We are focused on what I would call a true-to-label value approach, so very much behaviorally led. We're trying to do what others don't, won't, or can't. We see loss aversion in the market and mispricings in the market because, whilst the market is always changing and has different themes and macro, stock factors and politics, and everything is changing — the one thing that doesn't change in markets is humans, human nature and human behavior.

People still get very greedy, and they get very scared and very fearful. We think there are opportunities to exploit that in markets, and there always have been.

I think the differentiator for us is, we're trying to make this a genuinely modern approach on value. That's probably two things — firstly a modern way of exploiting technology, AI, data science, all of which is a key element of what we're doing.

We really think that now is a particularly apposite time to be thinking about creating a strategy, because you've got one of the big technological shifts in the world, and definitely within investment, going on at the moment. Being able to start with a blank piece of paper and embed that is hugely powerful.

But also, taking a leap in terms of, we've just gone through a 15-, 20-year period where behavioral science is so much better understood. *Thinking, Fast and Slow*¹ — but really the important thing is just thinking and understanding human nature, both in the market but also, really importantly, in our own behaviors, and just being more forensic and more thoughtful about our own approach and process.

As part of that, we are also very explicitly trying to think about some of the historic drawbacks of a value approach. Value is incredibly powerful, it's very successful over a hundred years, but it has some key drawbacks which everyone knows about: being in too early, being out too early, value traps, those kinds of things. We are trying to go after each of those individually and ask, can we be 1% better at each of these historic drawbacks? Because if we can be 1% better, that has the potential to add up to significant gains for our clients.

We can go into examples, but that's what we're trying to do a bit differently to our peers, but without altering the fundamentally attractive long-term philosophy, which is based on the one thing that doesn't change, and that's human nature.

Why do so many value investors have a good batting average, that is to say, they pick more winners than losers, but so few value investors turn that into a great slugging average or great long-term performance? Because the philosophy of a value investor leads you to fish in a part of the market that, over time, has more winners than losers — that is the strength — but then you leak performance over time through portfolio construction, through stock analysis, through other elements.

We are explicitly focused not only on where we add value, but where we might lose value, because, having added value, we want to retain as much of it as possible for our clients.

TWST: Can you talk about a few examples of holdings and how they meet the investment criteria you're looking for?

Mr. Kirrage: Today is actually a fascinating time in the markets if you're a value investor.

From a top-down, 10,000-foot view, you're looking at many market all-time highs, you're looking at quite rich average valuations for the market as a whole.

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TWST: Is there anything in particular you would point out in terms of your research and investment process and how that's differentiated?

Mr. Kirrage: I'm lucky enough to have been doing this for 25 years. It's been a real privilege to be able to manage capital for clients over most of that time period. I think one of the key things about this job is you understand what you're good at, but you also need to work out where you're not good at things.

The truth is, every fund manager I've ever met I thought was exceptional at least one, and typically two or three, things. The reason there aren't lots of exceptional track records is, many fund managers think they're exceptional at everything. And so, they make money in one area, and they give it back in others.

Sometimes people say to me, having done this 25 years, you must have learned a lot. And I think having the experience of managing capital in different markets over that time period has been hugely helpful. But the real strength of this isn't solely the accumulating knowledge in the areas where you're good. It's understanding where your weaknesses are and where the process weaknesses are, and working out how to reduce the leakage of alpha through a process — so, from your idea generation, through your stock analysis, and then portfolio construction.

There are key tenets: We're fundamental, we're bottom-up, we're doing the work ourselves, we believe in numbers, we believe in all of the stuff that I think is absolutely fundamental to being a fundamental investor. And we don't think we can outsource those things to AI, but we do think there are ways that we can pull ourselves into the 21st century by using things like AI and data science to make better and more consistent decisions over time.

But when you look bottom-up, actually, those high average valuations are being driven by handfuls of very expensive stocks, and the breadth of the dispersion of value is quite broad and quite interesting. It's in lots of different sectors, everything from very classical, cyclical value sectors, like chemicals, to sectors you're looking at for the first time in 25 years, like software.

Sometimes people talk about value being low quality, or dash for trash. I don't think that's true. I think over time, you get offered investments across the cycle and across the quality spectrum.

Today, you're being offered some incredibly interesting investments in sectors that historically were perceived as very high quality, things like Staples, Health Care, Software.

Some of the ideas that we've found in Health Care, for example, we think are very attractive. Like the managed care complex in the U.S., a lot of businesses there where you've had two or three quite negative cycles that have come together: a negative underwriting cycle, a post-COVID hangover, some quite heavy regulatory pressure from the administration in the U.S., all of which has beaten down valuations in a market which, over time, grows and has positive structural drivers to it.

It's the U.S. healthcare system where we see a lot of opportunity in a number of different companies; I think of companies like **Elevance** (NYSE:ELV), like **Centene** (NYSE:CNC), like **Molina** (NYSE:MOH)².

The concern around AI disruption and the uncertainty that's involved has brought a lot of companies across our radar that perhaps we would never have expected to see including FactSet (NYSE:FDS)².

It is one example of the types of high-returning, high-growth, high-margin, high-cash conversion businesses that have historically traded

at much higher valuations and we've found opportunities to buy businesses like these at more attractive levels, with really nice capital return profiles and limited financial risk in terms of the balance sheet. Those kinds of things provide quite a lot of excitement and quite a lot of opportunity for us.

Those are U.S. ideas, but we're also looking more broadly across international markets, we're seeing a range of opportunities that we think are worth evaluating over the next several years. We've started to see life in the old dog.

I know a lot of U.S. investors have been rather disparaging about international markets, and it's easy to do that with the domestic market in the U.S. doing so well, but the thing I would point out to people is actually, on a five-year view, value has been performing brilliantly in international. The international value index — the MSCI EAFE Value Index — has outperformed the S&P 500 by nearly 20% over the last five years³, which I don't think a lot of people know or talk about.

We think there's quite a lot of opportunity in international markets, and that's spread quite broadly, from Financials to Consumer Staples to Gaming stocks, lots of different things going on there.

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The thing that's exciting today if you're a value investor is, despite the optical headline, market levels and all the rest of it, we think a lot of the value part of the market still looks very compelling, and we're finding a lot of ideas.

TWST: What would you say characterizes your ongoing portfolio management and ongoing risk management?

Mr. Kirrage: Risk management is an area that we're pretty heavily focused on. I think when you look at a classic Achilles' heels of a value approach, one of the obvious ones is in risk management.

Value portfolios can become overly concentrated, very focused on a handful of different stocks or sectors where value congregates. And because value investors tend to be focused on permanent loss of capital — and they're absolutely right to be, because that is ultimately what risk is — the truth is that's quite a hard concept to quantify in the way that it's much easier to quantify something like volatility, even though we would say it's less important.

What we want to do is think about the many different lenses of risk that exist. Yes, your classic stock, sector, country, currency concentrations, maximum position sizes and so on and so forth, but that's really just table stakes these days. We want to also be thinking about thematic concentrations of risk.

If you turn your mind back to earlier this year, there were a lot of different stocks in different sectors all performing poorly at the same time. They were software stocks, they were payments companies, they were distribution companies, there were lots of businesses that were all doing poorly at the same time.

The interesting thing about that is if you'd gone and bought them, even though they were all in different sectors, your classic risk

tool would have said, “Ah, that's proper diversification.” But the reason they were all underperforming at the same time is because they were all perceived to be losers of the AI rotation and disruption. So, if you had bought into them all, you were basically buying into the same theme 10 different times. You weren't actually getting diversification at all.

We like to think about buckets. We tag every business with the various types of risk that we think it's getting, and then think about the buckets of risk and the exposure we have to those risks — whether it's AI disruption, or the Chinese macro driver, or any other macro that's a driver — about lumps of concentration of risk.

We also think about where our returns are coming from. Everybody talks about IRR today, but two stocks with a 15% IRR are not necessarily created equally. If all your IRR comes from an assumption that you know what multiple the market will put on a stock five years from now, versus you can have a better idea of the granular way in which cash will build up or profits might mean revert or improve over the next five years — the risk of those two assumptions are quite different.

So, we try to think about where our returns are coming from and whether or not we've got all our returns coming from one source, whether that's multiple mean reversion or dividends or whatever it might be. We're trying to diversify as much as possible.

These layers, correlations within portfolios, trying to make sure we understand where they are and why they might differ, I think they're just doubling down on risk management. “Risk control,” I think, is misleading. It's impossible to control risk, but it is possible to manage risk. And that's an area where, as value investors, we think we can do a better job as an approach stylistically, and we've focused on that.

TWST: And how would you describe your sell discipline? Is there a recent example you can tell us about?

Mr. Kirrage: I think selling stocks is much harder than buying stocks, to be honest with you. But the key discipline to selling a stock is understanding what you think the fair value of the company is. If you can do that, then it's much easier to get out of it.

One of the things we have learned is that another Achilles' heel of value investors is typically they sell too early. And the reason that a value investor sells too early — the reason they buy too early and sell too early — is behaviorally we are, as investors, attracted to the so-called falling knives, and we become quickly bored of stocks that start to go up because we want to find a new investment.

The challenge there is, how do we make sure we turn that batting average into a slugging average and extract the full element of performance for our clients?

We've put in place a kind of behavioral nudge, which is a differentiator of our process, which we call upside capture reviews. In upside capture reviews, any stock that rises 30% from its 12-month

low and is still in the cheapest third of the world in valuation terms, the default nudge is you should buy more, because that actually is the best-performing part of the value universe — the bit that's started to go up — even though mentally, as value investors, that's the first bit we want to sell.

So, we're constantly looking at investments. We don't buy every stock that goes up, because we want to control for risk, and it might be too big, we might have too much exposure to it.

Some stocks that have gone up recently and we have added to them are in the managed care space, where we thought the position size wasn't overly large, and they were still very cheap and continuing to go up.

An example of a stock where our sell discipline came into play was in **Ternium** (NYSE:TX), a Mexican steel company we previously held in the portfolios. We exited the position after we reassessed the company's risk/reward profile, including the potential impact of tariffs and policy uncertainty, changes in the broader steel market and our view of valuation relative to long-term fundamentals. The decision reflected our broader portfolio discipline: when our underwriting thesis has played out, or when we believe prospective returns no longer sufficiently compensate investors for the associated risks, we seek to redeploy capital into opportunities we view as more attractive on a forward-looking basis.⁵

Both of those decisions went through a review where we looked at, "what are we doing here, are we making sure that we are extracting as much value as possible?" We had strong views on what the stocks were worth, and they drove our decisions to buy more in the first case and sell out in the latter case.

threat in some of this AI disruption. Maybe AI isn't going to just disrupt sales, it's also going to help these businesses reduce their costs, so is it good for profits.⁴

One of the things that we've learned is we need to be as even-keeled, rational, and unemotional as we can. We need to get on and do our work quickly and to understand what the key drivers are — and just the key drivers. It is absolutely imperative that you understand the key drivers of risk and reward, but quite often people continue to do work on stocks well beyond what is needed to try and "get comfortable" with a stock.

I think there is a danger in being comfortable with any stock. In a portfolio, if you were right 60% of the time, you would be a genius by historic standards. In any endeavor where being right 60% of the time would make you a genius, there is no such thing as certainty. Every stock can make you money, and even in a high-conviction portfolio like this, every stock can hurt you.

If you start to do so much work that you become so comfortable with an investment that you think it can only make you money, you've made a mistake.

TWST: Could we wrap up with any other thoughts or advice for readers?

Mr. Kirrage: I believe in a couple of adages, and I think they're playing out very strongly today. That old adage about, in the short term, investors and humans tend to overestimate change, and in the long term they tend to underestimate change — I think that's as true today as it ever was.

"It's impossible to control risk, but it is possible to manage risk. And that's an area where, as value investors, we think we can do a better job as an approach stylistically, and we've focused on that."

TWST: You've talked a bit about human behavior and investor behavior. Is there anything you would add about that behavior in the current market environment and current macro environment, and what it means in terms of opportunities for you?

Mr. Kirrage: An observation I would make, and this is a bit anecdotal but there is some data to back this up: If you looked over the 25 years that I have been doing this, what you tended to find is that the behavioral cycles were more elongated than they are today. The market can be quite erratic today.

If you went back to the early 2000s, when the market became nervous and fell out of bed and became disenchanted, those periods could go down for 18 months to two or three years. Over the last 10, 15 years, selloffs have tended to be much quicker than that and people have very quickly come back to thinking that there's opportunity in stocks.

Look in the last three to four months at what's happened to software businesses. End of the first quarter of this year, there was no price for these stocks, and seemingly it was the end of the world. And yet a number of these businesses have bounced 50% to 100% as the market has taken a view that, you know, we're not going back to the way things were before, but there's as much opportunity possibly as

We talked about human behavioral cycles shortening a little bit in markets, and things moving very rapidly from fear to greed and back again. I think in that kind of environment, time arbitrage to taking a longer-term investment horizon has a higher payoff than it ever has, and the challenge in doing that is as difficult as it has ever been.

In a market where there is so much money flowing into passive investments automatically, and being traded in quite short cycles with news flow drivers and multi-strategy hedge and so on and so forth, there's quite a lot of money that is not taking a five-year view. I think if you can take a longer-term view, the returns to doing that can be incredibly attractive.

The other thing I might say, and this is perhaps opening a can of worms in the last five seconds of our conversation, is about the behavior of value as a style.

I think there are a lot of observers who have sat on the sidelines saying, "Will the real value please stand up?"

If you went back to the early 2000s and took a fund manager or a portfolio manager in the U.S. aside and you said, "A downturn's coming. What kind of funds do you want to own?" every one of them would have told you they wanted to own a value fund. Because they were

defensive in difficult times, they were robust, they tended to be more boring cash-generative businesses, and they tended to have the more stable long-term financing and just be a bit boring. They said, “Those are the ones you want when things are going to be tough.”

Actually, what happened was we went through a period where, particularly in 2008, 2009, that’s not what value did. It sold off. They tended to be too leveraged; we’d been through a period of leveraging up. There was huge pain in classic value sectors like the banking sector. And that basically threw everyone, and it meant that everyone suddenly lost a perspective on what is value. Is value a pro-cyclical play, or is it a defensive play?

I think we’ve gone through a period where a lot of these businesses have learned their lessons, have gone back to being a bit boring and cash generative, and as value investors we should celebrate that. A lot of them did very well during COVID, despite the kind of challenges posed there.

When we look at the portfolio today, we think it’s quite well placed, and the opportunity set is now broad enough that these should be

businesses that should be able to generate a return for us over the next five years without us needing to second guess whether it’s an up market or a down market. Because at the end of the day, the only thing that needs to really happen, the only thing you have to be sure about in the future, is that humans will behave like humans. And I’m very happy to make that investment call.

TWST: Thank you. (MN)

NICK KIRRAGE

Partner & Portfolio Manager

Brown Advisory

(800) 645-3923

www.brownadvisory.com

Disclosures

¹Kahneman, D. (2011). Thinking, fast and slow. Farrar, Straus and Giroux.

²Source: FactSet®, as of 08/31/2026. The listed companies represent current holdings within the Brown Advisory Global Value Select strategy as of 08/31/2026. The portfolio information is based on a Brown Advisory Global Value Select representative account.

³Source: FactSet®, as of 09/08/2026.

⁴The upside capture review process is a rules-based behavioral tool and does not guarantee improved outcomes. Adding to rising positions may increase portfolio concentration and loss exposure. A stock remaining in the cheapest valuation tier may reflect persistent fundamental deterioration rather than a market mispricing. Past effectiveness of this approach is not indicative of future results.

⁵Source: FactSet®, as of 06/30/2026. The company was held in the Brown Advisory Global Value Select and International Value Select strategies and was sold in Q2 2026. The portfolio information is based on representative International Value Select and Global Value Select accounts.

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