



Meet Your Portfolio Manager

Priyanka Agnihotri

Portfolio Manager of Brown Advisory's Sustainable International Leaders strategy answers some questions on investors' minds.

What is the biggest external challenge for the portfolio as it relates to for example inflation, interest rates, regulation or geopolitical risks?

The higher level of stock market volatility in the last six months appears to show no signs of easing. There are significant concerns around a host of issues such as inflation, supply chain shortages, higher interest rates and the geopolitical fall-out from the Russia/Ukraine crisis. Some of these issues are likely to persist beyond consensus expectations while others might be resolved quite quickly. We typically stay away from trying to predict macro-economic or geopolitical events which are well outside our circle of competence. Instead, we aim to own companies that we believe would be relatively resilient across a wide range of economic and political scenarios.

In a world that could see higher inflation for longer, we believe that the competitively advantaged businesses that we invest in should be somewhat protected due to their ability to pass on most, if not all, of the inflationary pressures they faced. Companies across the Sustainable International Leaders portfolio, ranging from staples such as Unilever to industrial companies such as Kone have all talked about an improved pricing environment for their businesses. While we cannot put a time frame for if and when inflationary pressures would revert to "normal", we do think the companies we hold are at a relative advantage compared to the wider investment universe.

The possibility of rate rises by the Fed to combat inflation has cast a pall over the valuation of what are perceived as "long-duration growth companies" that we own, such as Adyen and Shopify. This has been a near-term setback for the stock prices of some of the companies we own but we believe that their competitive advantages and significant reinvestment opportunities remain unchanged, while the valuations of these businesses are more compelling than ever. Thus, we have taken the current sell-off as an opportunity to add to some of these names. Some of the companies that we own such as Deutsche Boerse and LSE could potentially benefit from higher rates translating to a rise in trading activity and an increase in net interest income (mainly in the case of the former). As an overall point, I would add that I expect our valuation discipline to provide us with some margin of safety in a rising rate environment.

And finally, we do not have direct exposure to the Russian or Ukrainian market as defined by holding companies listed on local stock markets and hold less than 2% revenue exposure to both countries combined. While we sincerely hope for the conflict in Eastern Europe to be as short-term in nature as possible, we continue to assess any potential second order impacts to the portfolio. What we can do in our position is to focus on those areas where we have the best ability to control investment outcomes. And stay focused on the long-term.

The strategy invests in a concentrated portfolio of approximately 25 to 35 large- and mid-cap international companies that we believe have strong fundamental and sustainable competitive advantages, strong ESG risk management, reinvestment opportunities at high return on invested capital, high quality management teams and are undervalued over our long-term investment horizon, of minimum five years. The strategy seeks to deliver outperformance relative to the FTSE All-World ex-US Index over the economic cycle.

Have you made any changes to the portfolio over this quarter?

The first quarter of the year was one of heightened market volatility driven by concerns around higher inflation, supply chain challenges and geopolitical tensions between Russia and Ukraine. The current environment has given us the opportunity to invest in a number of high-quality businesses that we have followed for several years and were part of our “ready to buy” list. We have made two new additions at attractive, double-digit IRRs this year.

We spend the bulk of our time on fundamental, bottom-up research but, in light of the current Russia/Ukraine crisis and with one eye always focused on downside risk, have spent some time recently thinking about geopolitical risks (as much as possible from a bottom-up stock picker perspective) across the portfolio. We have made an adjustment to our exposure in the Taiwanese semiconductor company TSMC. While we think that the investment case for the company remains compelling, we see limitations to our ability to fully calibrate the current risk of an increased threat of military action by China in Taiwan and the consequences for TSMC, a concern that is triggered by the unrest in Eastern Europe. We have therefore reduced the position size while at the same time purchasing one of TSMC’s suppliers,

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ASML. ASML is a high-quality, Dutch semiconductor that we were hoping to own at the right price for a long time. They are the sole provider of the most innovative lithography technology, extreme ultraviolet lithography (EUV), the number one player in the lithography market and have strong pricing power as well as high return on invested capital. This offers some diversification in our semiconductor exposure without reducing our overall exposure to the sector. The other companies that we added since inception are NXP Semiconductors, Compass Group and Shopify.

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ESG considerations that are material will vary by investment style, sector/industry, market trends and client objectives. The strategy seeks to identify companies that it believes may have desirable ESG outcomes, but investors may differ in their views of what constitutes positive or negative ESG outcomes. As a result, the strategy may invest in companies that do not reflect the beliefs and values of any particular investor. The strategy may also invest in companies that would otherwise be screened out of other ESG-oriented funds. Security selection will be impacted by the combined focus on ESG assessments and forecasts of return and risk. The strategy intends to invest in companies with measurable ESG outcomes, as determined by Brown Advisory, and may seek to screen out particular companies and industries. Brown Advisory relies on third parties to provide data and screening tools. There is no assurance that this information will be accurate or complete or that it will properly exclude all applicable securities. Investments selected using these tools may perform differently than as forecasted due to the factors incorporated into the screening process, changes from historical trends, and issues in the construction and implementation of the screens (including, but not limited to, software issues and other technological issues). There is no guarantee that Brown Advisory’s use of these tools will result in effective investment decisions.

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Terms and Definitions

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

Internal Rate or Return (IRR) is a metric used in financial analysis to estimate the profitability of potential investments. Mathematically, IRR is the discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

Brown Advisory Sustainable International Leaders Composite

| Year | Composite Total Gross Returns (%) | Composite Total Net Returns (%) | Benchmark Returns (%) | Composite 3-Yr Ann. Standard Deviation (%) | Benchmark 3-Yr Ann. Standard Deviation (%) | Portfolios in Composite at End of Year | Composite Dispersion (%) | Composite Assets (\$USD MM)* | GIPS Firm Assets (\$USD MM)* |
|--------|-----------------------------------|---------------------------------|-----------------------|--|--|--|--------------------------|------------------------------|------------------------------|
| 2020** | N/A | N/A | N/A | N/A | N/A | Five or fewer | N/A | N/A | 59,683 |

**Performance not available for the period since the Composite inception date is September 1, 2021.

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- *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 Sustainable International Leaders Composite (the Composite) includes all discretionary portfolios invested in the Sustainable International Leaders strategy. The Sustainable International Leaders strategy aims to achieve capital appreciation by investing primarily in international equities. The strategy intends to invest in equity securities of companies that the portfolio manager believes are leaders within their industry or country, as demonstrated by an ability to deliver high relative return on invested capital over time.
- ESG considerations that are material will vary by investment style, sector/industry, market trends and client objectives. The strategy seeks to identify companies that it believes may have desirable ESG outcomes, but investors may differ in their views of what constitutes positive or negative ESG outcomes. As a result, the strategy may invest in companies that do not reflect the beliefs and values of any particular investor. The strategy may also invest in companies that would otherwise be screened out of other ESG oriented funds. Security selection will be impacted by the combined focus on ESG assessments and forecasts of return and risk. The strategy intends to invest in companies with measurable ESG outcomes, as determined by Brown Advisory, and seeks to screen out particular companies and industries. Brown Advisory relies on third parties to provide data and screening tools. There is no assurance that this information will be accurate or complete or that it will properly exclude all applicable securities. Investments selected using these tools may perform differently than as forecasted due to the factors incorporated into the screening process, changes from historical trends, and issues in the construction and implementation of the screens (including, but not limited to, software issues and other technological issues). There is no guarantee that Brown Advisory's use of these tools will result in effective investment decisions.
- The Composite creation date is October 6, 2021. The Composite inception date is September 1, 2021.
- The benchmark is the FTSE All-World ex-US Net Index. The FTSE All-World ex-US Net Index is a weighted index representing the performance of the large and mid cap stocks providing coverage of Developed and Emerging Markets excluding the US. 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.
- Composite dispersion is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the Composite for the entire period.
- 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: 0.80% on the first \$50 million; 0.55% on the next \$50 million; 0.45% on the next \$50 million; and 0.40% on the balance over \$150 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. 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, 2020 because 36 month returns for the Composite were not available (N/A) and the Composite did not exist.
- As of Composite inception, 100% of Composite assets are non-fee-paying portfolios.
- 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 and broad distribution and limited distribution pooled funds is available upon request.
- Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
- Past performance is not indicative of future results.
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