Brown ADVISORY
Thoughtful Investing.

A letter about our

Sustainable International Leaders Strategy

From

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It's been a long way from working in foreign exchange and interest rate markets in Delhi in the years preceding the global financial crisis, to international equities investing in London at Brown Advisory. I joined Brown Advisory in 2015, the year we launched Global Leaders, the firm's first global equity strategy. More than six years into this journey, I couldn't be more excited to bring our team's investment philosophy and our insights on global equity investing to the Sustainable International Leaders (SIL) strategy. I have substantial experience as a financials analyst, an area we have had meaningful exposure to since the inception of our Global Leaders strategy. As a founding member of Brown Advisory's global equity team, I have been closely involved in helping create our investment process, including our valuation framework, and also gained experience in capital allocation. I started my investment career after graduating from the value investing program at Columbia Business School, where I learnt from arguably some of the best practitioners in the business. I have accumulated over a decade of investment experience since and have evolved over this period to focus on high quality franchises that we believe can generate compelling returns for their investors over a long period of time.

KEY BELIEFS AND INVESTMENT PHILOSOPHY

If we start with the fundamental premise that market valuations of listed companies converge with their intrinsic values over time, it follows that companies that increase their intrinsic value ahead of the overall market, when purchased at reasonable valuations, can be expected to outperform the market. Estimating the intrinsic value of a business, however, is no easy feat. The risks in owning a business (which arise from a variety of factors such as changes in industry trends, customer behavior, competitive dynamics and regulation) imply that we can never predict with 100% accuracy the future intrinsic value of a company. Furthermore, our own behavioral biases, which are an inescapable part of the human condition, creep into our decision-making and compound the difficulty of identifying and owning these notable businesses over a long period of time. The conundrum that we are trying to solve is identifying attractive businesses that we believe will outperform the market without overpaying for them and without having to make that decision again and again if we do our job well.

We believe that there is a small sub-universe of companies with a specific set of characteristics (described below) that, if identified correctly and held over a long investment horizon, could help us achieve that.

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.

- ***Competitively advantaged businesses:*** *In a world with perfect competition, companies can generally expect their profitability to trend towards cost of capital in the long run. However, in our view, companies that benefit from multiple, often mutually reinforcing, competitive advantages have the best chance of earning above average returns over prolonged periods of time. We focus on competitive advantages both from a fundamental and an ESG perspective, we believe both are integral to growing the long-term value of a business. Such competitive advantages were traditionally associated with fundamental characteristics such as economies of scale, intangible assets or network effects, but they could equally be driven by sustainability drivers such as efficiency gains in the use of natural resources that can create a cost advantage to the company and a positive impact on the environment. One example within our portfolio would be the Swiss specialty chemical company Sika.*

> Sika, enjoys a combination of cost advantages and customer captivity in its business on the fundamental side which we think are difficult for new entrants to replicate. At the same time 70% of Sika's sales come from products that allow their construction and industrial customers to reduce their carbon footprint which is a significant sustainable opportunity driver that we believe can drive revenue and we estimate is again difficult for most peers and new entrants to match.

- ***High return on invested capital:*** *In order to compound business value at an above average growth rate, a company should be able to deploy capital at a high rate of return. This can be achieved through a number of ways such as the presence of reinvestment opportunities from organic growth opportunities, market share gains and in certain cases value accretive M&A. A company that has earned a high return on invested capital in the past but is unable to deploy capital back in the business at these historically high returns cannot compound its business value at a similar rate to a company that can continue to re-invest a meaningful portion of the capital that it generates at those high returns. This is one of the reasons why European banks in consolidated markets such as the UK, with high returns on assets but limited opportunities for reinvestment, are less appealing to us than our emerging markets holdings in HDFC Bank or Bank Rakyat which we believe can continue to compound their book value over a long period of time.*

- ***Capable and rightly incentivized management teams****: A great business model is only part of the puzzle, we think it is equally important to have great management at the helm of these companies. As long-term investors, we believe it is imperative to back management teams that understand a company's moats or competitive advantages and how to maintain and grow them over time. Moreover, management is often responsible for investing the majority of a company's invested capital base over our holding period and their capital allocation skills will drive returns for us as shareholders. Even with a great business model, wrong capital allocation decisions can be value destructive. We therefore look for management teams that conduct themselves with integrity, whose incentives are aligned to ours as closely as possible and who think like investors.*

- ***Attractive valuations, from a long-term investment horizon****: Numerous academic and practitioner studies[1] have shown that the market doesn't always appreciate (i.e., price in) the persistence of high quality or high return on invested capital. In our experience, the best businesses can continue to compound capital at high rates of return far beyond the typical 5- to 10-year investment horizon of most long-term public market investors. When we look back, we find that our best investments often undershoot our own 5-year cash flow projections. We believe that the companies with the favorable characteristics that we are looking for can be great investments when identified correctly and purchased at reasonable valuations. As opposed to one-year optical valuation metrics, our focus is on free cash flow-based valuation[2] over our preferred time horizon of five to ten years.*

Warren Buffett's famous first rule of investing is to not lose money. We couldn't agree more and focus on downside risk at every stage of our investment process from idea screening to portfolio construction and throughout our ongoing due diligence process. When thinking about risk, our primary focus is on avoiding permanent loss of capital as opposed to short-term volatility, which, while disconcerting when one goes through it, is in our opinion part and parcel of operating in public equity markets. With that in mind, some of the risks we aim to avoid include investing in companies with excessive leverage, companies that we identified as having significant ESG risk, businesses with large, unquantifiable liability or businesses that risk becoming obsolete over our investment horizon.

OUR APPROACH TO SUSTAINABILITY

The strategy incorporates ESG research integration with fundamental research, employing the tools developed in-house since 2009 as part of Brown Advisory's sustainable investing platform. We focus on identifying companies with sound ESG risk management practices and also on compelling sustainable business advantages (SBA), employing both a defense and an offense approach. On the defense side, we aim to invest in companies with sound ESG risk management practices and avoid exposure to major ESG risks. On the offense side, we look for companies that exhibit Sustainable Business Advantages (SBAs), which we define as business drivers derived from a company's sustainability strategies, with the potential to generate 1) revenue growth, 2) cost improvement and/or 3) enhanced franchise value. Ultimately, these SBA drivers should translate into positive financial returns for shareholders.

While we are pleased to see ESG and sustainability take a central role in the investment discourse, we take the view that it is imperative for investors to do their own due diligence, given the lack of standardization and consensus in the field and to hold ourselves to the same research rigour on the ESG side as we do on the fundamental side. Brown Advisory's sustainable investing platform, developed in-house over 10+ years provides us with a systematic and consistent approach to identifying investments that have positive environmental, social and/or governance features, as well as to engage with companies and management teams to further these goals as and when we see an opportunity do so.

COMPANY	IMPACT THEME	SBA DRIVERS
Atlas Copco	Sustainable Technology Innovation	Atlas Copco has a technology leadership position in the development of energy efficiency air compressors and vacuum pumps and has set a goal for all new and redesigned products to have a clear target set for reduced environmental impact.
Waste Connections	Efficient Production and Conservation	Waste Connections is an integrated solid waste services company that provides essential, non-hazardous waste collection, transfer and disposal services, along with resource recovery, primarily through recycling and renewables fuel generation. We believe Waste Connection possesses an operational advantage, driven largely by its occupational safety efforts that produce a total recordable incident rate that is half the industry average, and a risk cost as a percentage of revenue as the lowest among its peers. Additionally, the company's location proximity of disposal sites within competitive markets helps lowers transportation costs and presents a unique barrier to entry.

THE SUSTAINABLE INTERNATIONAL LEADERS PORTFOLIO

We launched the portfolio with some of our highest conviction ideas in international markets. As fundamentals driven stock-pickers, we invest in companies and management teams, not countries, economies or macro factors. We are not trying to fill any geographic or sector gaps against our benchmark (FTSE All-World ex-US Index) – the portfolio is very much an outcome of our bottom-up process. Our geographic revenue exposure as of the end of the quarter was 6.3% Japan, 27.9% Asia (ex-Japan), 27.6% Europe and 37.1% Rest of World.

Given the investment philosophy outlined above, it is no surprise SIL has a ROIC and 3-year forward sales growth that are meaningfully higher than our benchmark.[3] For what we view as a collection of high-quality compounders, our portfolio looks only slightly expensive compared to the benchmark (on 1-year consensus numbers)[4] and we are currently seeing several of our holdings trading at double digit IRRs. In our experience, if we have chosen correctly, we believe that our investee companies can easily exceed consensus estimates through superior execution in their core businesses and through the creation of future options to increase the value of the business either through growing the markets they operate in or through thoughtfully expanding into new markets. Thus, our portfolio is positioned to benefit from a mix of secular and cyclical growth tailwinds while keeping a close eye on risks

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Thank you for your support.

Priyanka and the Sustainable International Leaders Team

[1] See Bouchaud, Jean-Philippe and Ciliberti, Stefano and Landier, Augustin and Simon, Guillaume and Thesmar, David, The Excess Returns of 'Quality' Stocks: A Behavioral Anomaly (January 15, 2016). HEC Paris Research Paper No. FIN-2016-1134, Available at SSRN: https://ssrn.com/abstract=2717447 or http://dx.doi.org/10.2139/ssrn.2717447, Novy-Marx, Robert, (2013), The other side of value: The gross profitability premium, Journal of Financial Economics, 108, issue 1, p. 1-28, https://EconPapers.repec.org/RePEc:eee:jfinec:v:108:y:2013:i:1:p:1-28 and Asness, C.S., Frazzini, A. & Pedersen, L.H. Quality minus junk. Rev Account Stud 24, 34–112 (2019). https://doi.org/10.1007/s11142-018-9470-2.

[2] Our favoured valuation approach is the DCF methodology over 10 years using a 10% (or higher in the case of emerging markets) cost of capital.

[3] Source:FactSet. As of March 31, 2022, ROIC and 3-year forward sales growth are 16.2% and 11.59% for Sustianable International Leaders, and 7.8% and 7.68% for the benchmark, respectively. Portfolio level information is based on a representative Sustainable International Leaders account and is provided as Supplemental Information and excludes cash.

[4] NTM FCF yield (ex-financials) of 3.6% for Sustainable International Leaders vs 4.0% for the benchmark (as of 3/31/2022). This translates to a 1-year forward P/FCF multiple of 21.21x for the portfolio and 11.79x for the Index. Portfolio level information is based on a representative Sustainable International Leaders account and is provided as Supplemental Information.

Terms and Definitions

The FTSE All-World ex-US Index is a market-capitalization weighted index representing the performance of the large and mid-cap stocks from the FTSE Global ex-US I Equity Index Series and covers 90-95% of the investable market capitalization. The index covers Developed and Emerging markets, excluding the US, and is suitable as the basis for investment products, such as funds, derivatives and exchange-traded funds. FTSE® is a trade mark of LSEG and is used by FTSE under license.

An investor cannot invest directly into an index.

All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted. FactSet® is a registered trademark of FactSet Research Systems, Inc.

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.

Sales growth rate is based on reported company revenue for the past three years at the end of the current quarter, provided as a historical average.

Free Cash Flow is operating cash flow minus net capital expenditure.

Internal Rate or Return is a metric used in financial analysis to estimate the profitability of potential investments.

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.

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, 2020. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

1. *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The 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.
3. 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.
4. The Composite creation date is October 6, 2021. The Composite inception date is September 1, 2021.
5. 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.
6. 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.
7. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. The standard management fee schedule 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.
8. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2020 because 36 month returns for the Composite were not available (N/A) and the Composite did not exist.
9. As of Composite inception, 100% of Composite assets are non-fee-paying portfolios.
10. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
11. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
12. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
13. Past performance is not indicative of future results.
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