

TAX-EXEMPT SUSTAINABLE STRATEGY REVIEW AND OUTLOOK

Second Quarter 2021



The Tax-Exempt Sustainable Bond strategy outperformed its benchmark in the second quarter as municipal credit fundamentals continued to show resilience. The market has also benefited from consistent investor demand and a steady influx of fund flows since the sudden (and severe) outflow episode experienced at the onset of the pandemic last spring. This continued strength in demand for municipals played a major role in providing stability to the broad municipal bond market during the interest rate volatility during the first quarter. Yet, this most recent quarter's relative outperformance in our strategies was driven by credit dynamics, both in terms of investor perception and in terms of fundamental credit strength, particularly in essential service revenue-backed bonds.

Municipal credit was helped by the meaningful federal fiscal stimulus directed to issuers through the \$1.9 trillion American Rescue Plan (ARP) that was passed into law in the first quarter. Under the ARP, states, cities and county governments are expected to receive \$326 billion altogether, an amount estimated to exceed five times the collective budget shortfall for these governments through FY 2022. Additionally, many other municipal entities should receive direct funds from ARP: K-12 schools, universities, airports, hospitals and mass transportation issuers combined should receive another \$215 billion. The size and scope of this stimulus, along with surprising strength in underlying municipal credit fundamentals (beyond ARP), has led to widespread positive ratings revisions and/or improved credit outlooks by ratings agencies across the market. The ratings agencies' recent positive stance was an abrupt turnaround in sentiment on large portions of the market, including many of the same credits and sectors that were just downgraded or put on negative review last year.

To be fair, our approach to bottom-up fundamental credit investing views these outside credit ratings as informed opinions, similar to sell-side research teams or other sources of research within the market. Rating agency actions are typically slow moving and lagging indicators in terms of current municipal bond valuations. However, these actions can impact investor perceptions and in turn can influence valuation in the short term when they are taken. We take a long term fundamental view based on a variety of sources of information. Many times, our process results in moving "faster" than rating agencies with respect to taking purchase or sale actions. For the recent swings of the ratings pendulum, our process

| NAME | 3-MONTH RETURN (%) | 1-YEAR RETURN (%) | 3-YEAR RETURN (%) | 5-YEAR RETURN (%) | ITD RETURN (%) |
|--|--------------------|-------------------|-------------------|-------------------|----------------|
| Tax-Exempt Sustainable Bond Composite (Gross of fees) | 1.49 | 4.15 | 4.44 | 2.79 | 2.90 |
| Tax-Exempt Sustainable Bond Composite (Net of fees) | 1.45 | 3.94 | 4.08 | 2.38 | 2.48 |
| Bloomberg Barclays 1-10 Year Blend Municipal Bond Index | 0.62 | 2.43 | 3.91 | 2.48 | 2.69 |

* Annualized Returns

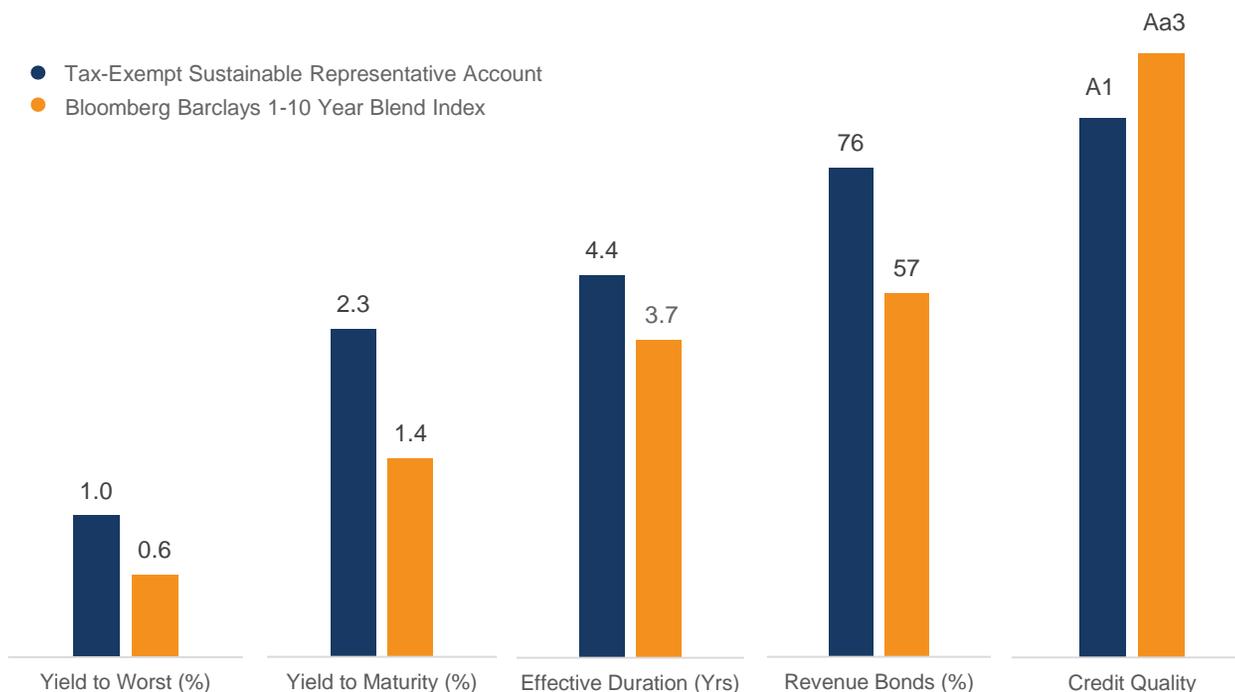
looked through the rapid negative rating agency actions to the underlying investment theses, resulting in holding positions and often taking advantage of the dislocations in valuation that the actions caused.

Specifically for the second quarter, our strategy benefited from the strength in municipal credit performance as credit spreads tightened and middle-quality bonds (A-rated and BBB-rated) outperformed the highest-rated parts of the market. We were extremely busy in the second half of 2020 adding exposure to many large essential service revenue issuers at very attractive yields and spread concessions. Many of these new additions in sectors like airports, mass transit, tax revenues and hospitals have benefited from portfolio performance as demand has returned and credit spreads have compressed. Several of these high conviction ideas were added in longer duration parts of the yield curve (7-10+ years), which helped during the quarter as these individual spreads tightened. These new additions paired with our continued re-underwriting and diligence of our entire credit portfolio have meaningfully contributed to performance.

Looking forward, we believe the market will continue to balance the risk and rewards across municipal sectors and individual credits. Given the fragmented nature of the market, with roughly 50,000 distinct issuers, generic credit spreads have been slower to recover than other investment grade U.S. fixed income markets. We see this lag, and the resulting cheap valuations, as an opportunity as we continue to find attractive relative values across the market.

PORTFOLIO ATTRIBUTES

Second Quarter 2021 Tax-Exempt Sustainable Representative Account as of 06/30/2021



THREE-YEAR UPSIDE / DOWNSIDE CAPTURE



| PERFORMANCE CHARACTERISTICS | TAX-EXEMPT SUSTAINABLE REP. ACCT | BLOOMBERG BARCLAYS 1-10 YEAR BLEND INDEX |
|-----------------------------------|----------------------------------|--|
| Sharpe Ratio (3 Yr.) | 1.01 | 0.94 |
| Sortino Ratio (3 Yr.) | 2.32 | 2.32 |
| Beta | 1.10 | 1.00 |
| Annualized Alpha (3 Yr.) | 0.31 | -- |
| Annualized Tracking Error (3 Yr.) | 1.24 | -- |

Source: FactSet. Past performance is not indicative of future results. Portfolio information is based on a representative Tax-Exempt Sustainable Bond account and is provided as supplemental information. Three-year period is 6/29/18 to 6/30/21. Annualized Upside/Downside Capture is net of fees and is provided as supplemental information. Upside capture ratio is defined as how well a portfolio performs in time periods where the benchmark's returns are greater than zero. For example, if the benchmark's upside capture is 100% and the portfolio's is 120.6%, then when the benchmark is up 1% your portfolio is up 1.21%. The downside capture ratio is defined as how well a portfolio performs in time periods where the benchmark's returns are less than zero. For example, if the benchmark downside capture is 100% and the portfolio's is 118.7%, then when the benchmark is down 1% your portfolio is down 1.19%. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

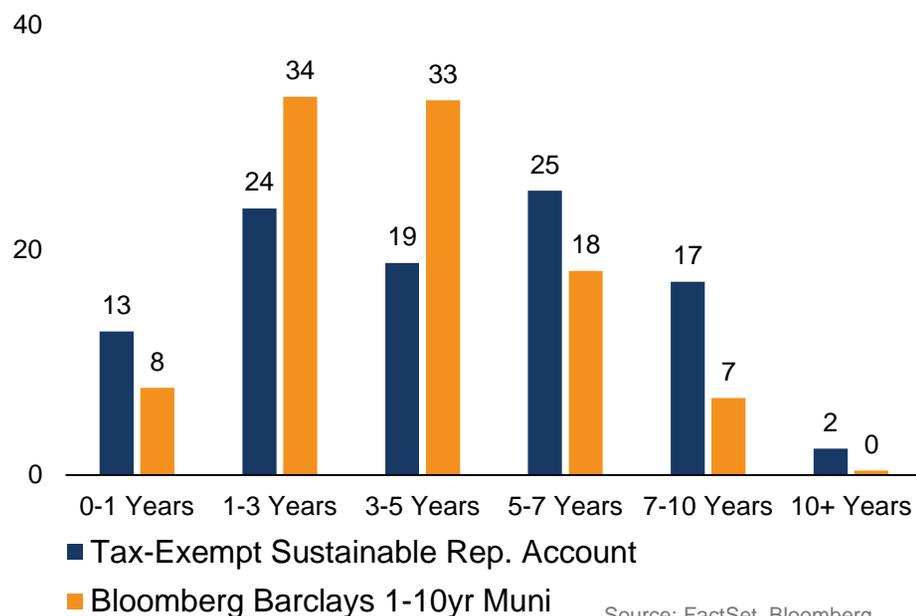
DURATION AND QUALITY DISTRIBUTIONS

Second Quarter 2021

Duration Distribution

Percentage Weight

Rep Account 4.4
Benchmark 3.7



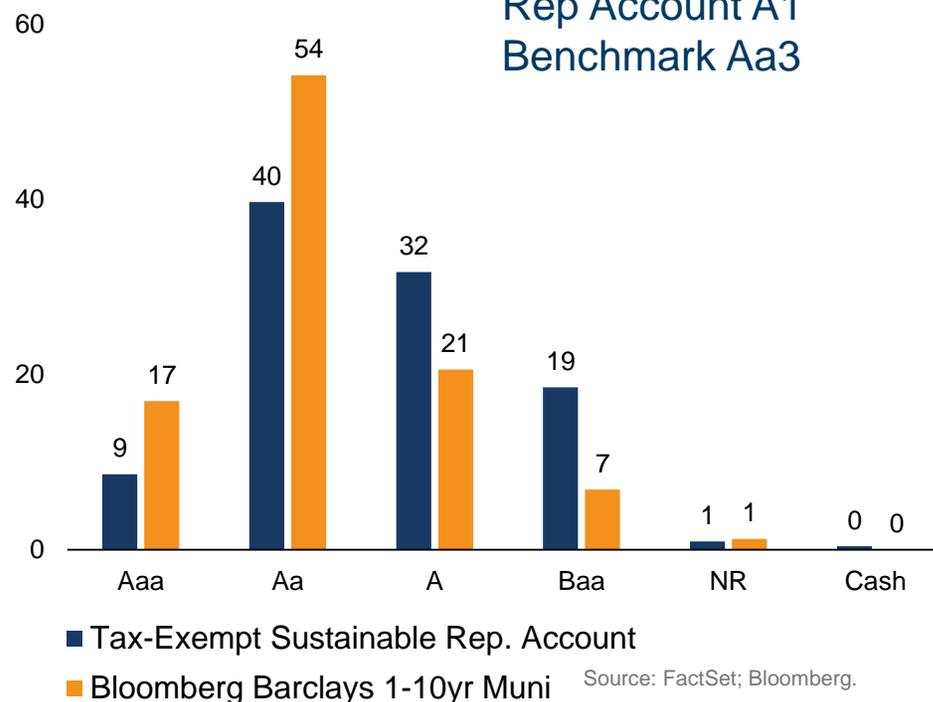
Source: FactSet, Bloomberg.

- Floating-rate securities and short-callable, high-coupon “kicker” bonds make up the majority of our ultrashort duration.
- We are underweight 1-5 year bonds because we believe that part of the yield curve is overvalued.
- We are overweight higher quality 5-10 year bonds which we view as having an attractive relative valuation.

Quality Distribution

Percentage Weight

Rep Account A1
Benchmark Aa3



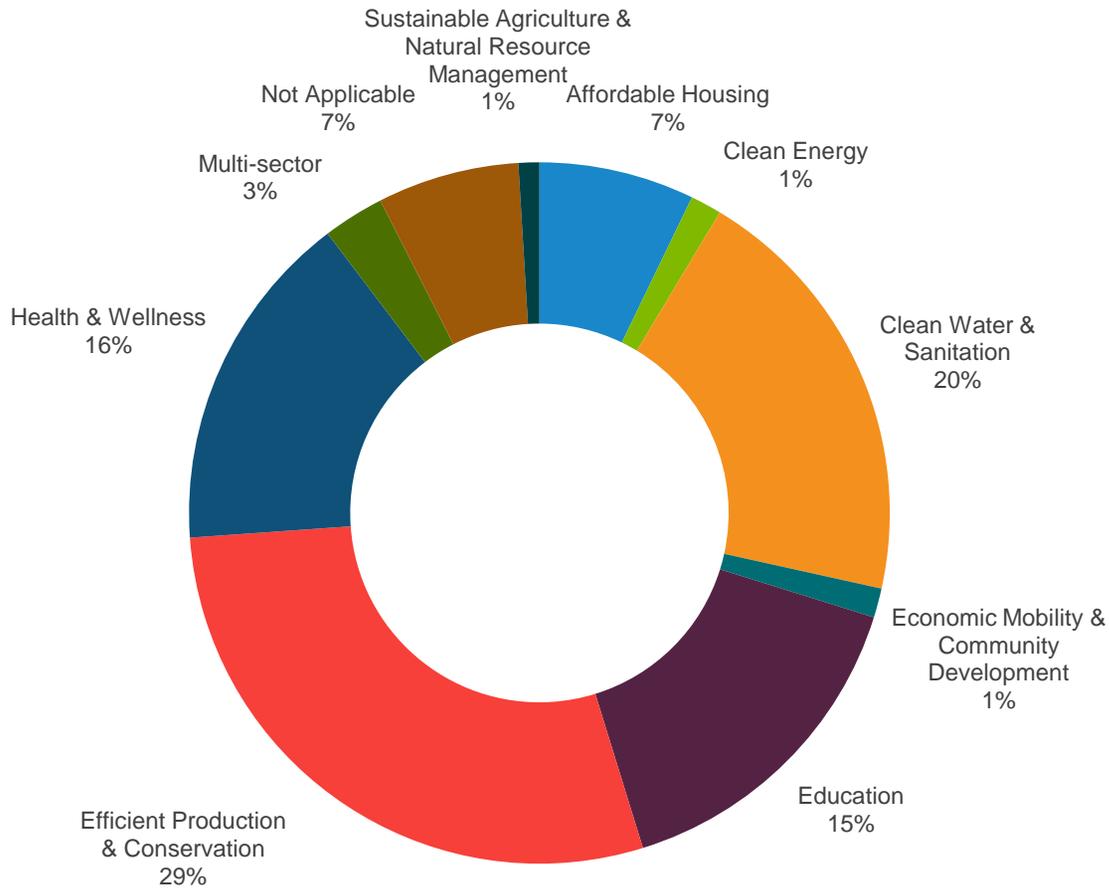
Source: FactSet, Bloomberg.

- We focus on bottom-up credit and sector selection to drive investment performance, rather than hugging a benchmark.
- Our focus on revenue-backed issues, from sectors like health care and utilities, tends to create a more balanced ratings distribution than the benchmark. We view our credit expertise as a strong differentiating factor.

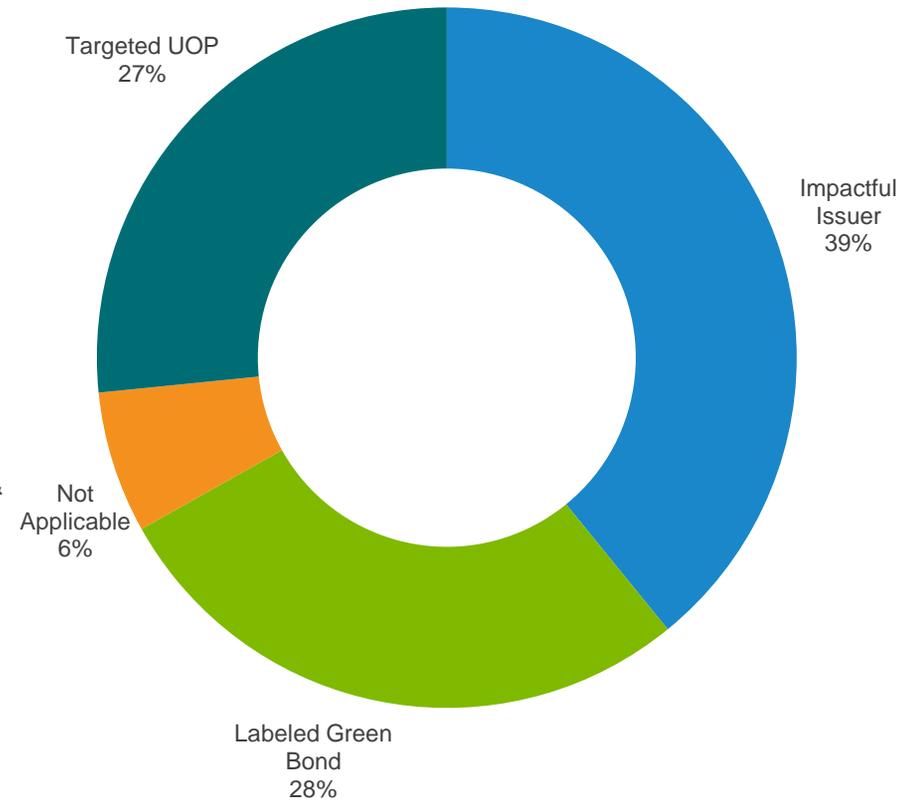
TAX-EXEMPT SUSTAINABLE FIXED INCOME

Impact Distribution as of 6/30/2021

Impact Distribution



Impact Source



Source: FactSet. Impact breakdowns are based on a representative account, include cash and are provided as supplemental information. *NA refers to cash and equivalents, treasuries, and ESG neutral securities. Numbers may not total due to rounding. 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. Please see the end of this presentation for important disclosures.

PERFORMANCE ATTRIBUTION

Tax-Exempt Sustainable

ATTRIBUTION DETAIL BY SECTOR



Second Quarter 2021

| SECTOR | TAX-EXEMPT SUSTAINABLE REP ACCOUNT | | BLOOMBERG BARCLAYS 1-10YR MUNI BLEND | | CONTRIBUTION TO RETURN | | |
|-----------------------|------------------------------------|-------------|--------------------------------------|-------------|------------------------|---------------|----------------|
| | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | BROWN ADVISORY (%) | BENCHMARK (%) | DIFFERENCE (%) |
| General Obligation | 22.6 | 1.2 | 31.7 | 0.6 | 0.26 | 0.20 | 0.06 |
| Airport/ Port | 14.2 | 1.3 | 4.4 | 0.9 | 0.18 | 0.04 | 0.14 |
| Tax Revenue | 10.1 | 2.8 | 10.2 | 0.7 | 0.28 | 0.07 | 0.20 |
| Hospital | 9.4 | 1.8 | 5.0 | 0.8 | 0.16 | 0.04 | 0.13 |
| Education | 6.9 | 1.4 | 4.5 | 0.6 | 0.09 | 0.03 | 0.06 |
| Miscellaneous Revenue | 6.8 | 1.1 | 12.7 | 0.7 | 0.08 | 0.09 | -0.01 |
| Water & Sewer | 6.3 | 1.6 | 3.4 | 0.5 | 0.10 | 0.02 | 0.08 |
| CCRC | 6.2 | 3.1 | 0.1 | 1.5 | 0.19 | -- | 0.19 |
| Housing | 5.0 | 1.1 | 0.8 | 0.6 | 0.05 | -- | 0.05 |
| Pre-Refunded | 4.0 | 0.3 | 11.6 | 0.2 | 0.01 | 0.02 | -0.01 |
| Other Utilities | 3.7 | 0.5 | 7.3 | 0.4 | 0.02 | 0.03 | -0.01 |
| Other Transportation | 3.0 | 0.4 | 8.4 | 0.9 | 0.01 | 0.08 | -0.07 |
| Cash | 1.8 | -- | -- | -- | -- | -- | -- |
| Total | 100 | 1.42 | 100 | 0.62 | 1.42 | 0.62 | 0.80 |

Source: FactSet. Portfolio information is based on a representative Tax-Exempt Sustainable Bond account and is provided as supplemental information. 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. Attribution includes cash and cash equivalents. Past performance is not indicative of future results. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

ATTRIBUTION DETAIL BY DURATION AND CREDIT QUALITY **Brown**ADVISORY

Thoughtful Investing.

Second Quarter 2021

| DURATION | TAX-EXEMPT SUSTAINABLE REP ACCOUNT | | BLOOMBERG BARCLAYS 1-10YR MUNI BLEND | | CONTRIBUTION TO RETURN | | |
|----------------|------------------------------------|-------------|--------------------------------------|-------------|------------------------|---------------|----------------|
| DURATION RANGE | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | BROWN ADVISORY (%) | BENCHMARK (%) | DIFFERENCE (%) |
| 0 – 1 | 15.5 | 0.2 | 5.4 | 0.2 | 0.03 | 0.01 | 0.02 |
| 1 – 3 | 26.0 | 0.6 | 35.3 | 0.2 | 0.16 | 0.07 | 0.10 |
| 3 – 5 | 14.4 | 1.2 | 33.5 | 0.6 | 0.18 | 0.19 | -0.01 |
| 5 – 7 | 24.7 | 1.7 | 18.5 | 1.3 | 0.39 | 0.24 | 0.15 |
| 7 – 10 | 17.1 | 3.4 | 6.9 | 1.6 | 0.60 | 0.11 | 0.49 |
| 10 + | 2.3 | 2.8 | 0.4 | 1.8 | 0.06 | 0.01 | 0.06 |
| Total | 100 | 1.42 | 100 | 0.62 | 1.42 | 0.62 | 0.80 |

| QUALITY | TAX-EXEMPT SUSTAINABLE REP ACCOUNT | | BLOOMBERG BARCLAYS 1-10YR MUNI BLEND | | CONTRIBUTION TO RETURN | | |
|---------------|------------------------------------|-------------|--------------------------------------|-------------|------------------------|---------------|----------------|
| CREDIT RATING | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | BROWN ADVISORY (%) | BENCHMARK (%) | DIFFERENCE (%) |
| AAA | 11.4 | 1.3 | 17.0 | 0.4 | 0.15 | 0.07 | 0.09 |
| AA | 38.6 | 1.0 | 54.1 | 0.5 | 0.40 | 0.28 | 0.12 |
| A | 30.4 | 1.3 | 20.6 | 0.8 | 0.38 | 0.16 | 0.22 |
| BBB | 18.5 | 2.7 | 6.8 | 1.5 | 0.49 | 0.11 | 0.38 |
| BB | -- | -- | 0.1 | 1.0 | -- | -- | -- |
| NR | 1.1 | 0.1 | 1.3 | 0.3 | -- | -- | -- |
| Total | 100 | 1.42 | 100 | 0.62 | 1.42 | 0.62 | 0.80 |

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QUARTER-TO-DATE TOP FIVE AND BOTTOM FIVE CONTRIBUTORS TO RETURN

Second Quarter 2021 Representative Tax-Exempt Sustainable Account Top Five Contributors

| NAME | DESCRIPTION | WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|--|------------|------------|----------------------------|
| Metropolitan Pier & Exposition Authority | Refunds McCormick Place expansion project bonds | 3.32 | 5.96 | 0.19 |
| City of Phoenix AZ Airport Revenue | Commercial service airport serving the Phoenix area | 3.17 | 4.22 | 0.13 |
| San Francisco Bay Area Rapid Transit District Green Bond | Provides rapid transit service to the San Francisco Bay Area | 2.89 | 2.60 | 0.07 |
| The Massachusetts Clean Water Trust Green Bond | Funds wastewater and clean drinking water projects | 5.20 | 1.37 | 0.07 |
| West Contra Costa Unified School District | Provides K-12 education in Contra Costa County | 2.33 | 2.78 | 0.06 |

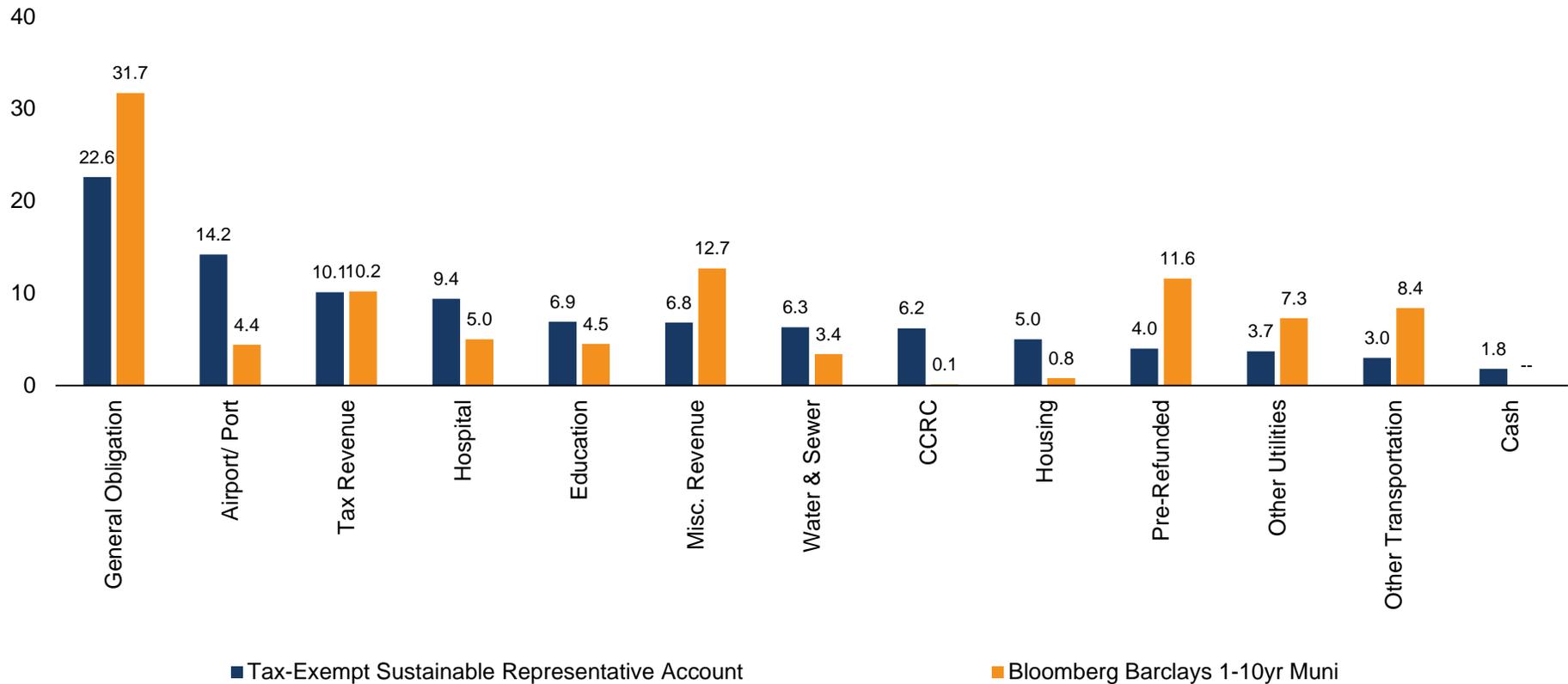
Representative Tax-Exempt Sustainable Account Bottom Five Contributors

| NAME | DESCRIPTION | WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|--|--|------------|------------|----------------------------|
| City of Springfield IL Water | Funds capital improvements at the water purification plant complex | 1.39 | -0.02 | -- |
| Metropolitan Transportation Authority Dedicated Tax Fund Green Bond | Develops and implements mass transit serving NYC and surrounding areas | 0.76 | 0.03 | -- |
| Pennsylvania Housing Finance Agency | Promotes housing for low and moderate income families | 0.15 | 0.02 | -- |
| Pennsylvania Higher Education Assistance Agency | Provides student financial aid services | 0.86 | 0.03 | -- |
| Portage Redevelopment District | Refunds AmeriPlex project bonds in Portage, IN | 0.44 | 0.14 | -- |

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SECTOR DIVERSIFICATION

Second Quarter 2021 Percentage Weight as of 06/30/2021



- We focus on bottom-up credit and sector selection to drive relative performance.
- We find credit fundamentals in revenue-backed bonds to be more transparent and more easily modeled, with the bonds yielding more than most general obligation (GO) issues.

SAMPLE HOLDINGS

Tax-Exempt Sustainable

Portfolio Holding: Buffalo Sewer Authority

The Buffalo NY Sewer Authority is responsible for the infrastructure of Western New York's water resources.



B U F F A L O
S E W E R A U T H O R I T Y

Fundamental Drivers

- **Security:** Bonds are paid by the sewer system's net revenues.
- **Strong Financials:** 4x debt service coverage and 445 days cash on hand in FY2020.
- **Essentiality:** Large customer base with ~110,000 residential customers and ~1,200 commercial customers in the Buffalo region.

Sustainability Drivers

- **Climate Resiliency:** Buffalo Sewer Authority (BSA) leads the Rain Check 2.0 initiative which aims to minimize the impact of flooding events through green infrastructure projects.
- **Social Impact:** BSA incorporates social equity considerations in its green infrastructure initiatives.
- **Green Bond Proceeds:** Series 2021 bonds to finance Rain Check projects, including tree planting, installation of raingardens and stormwater planters and removal of impervious surfaces.

RHODE ISLAND PUBLIC SCHOOLS, CITY OF EAST PROVIDENCE RI (SOCIAL BOND)

Portfolio Holding: Rhode Island Public Schools

The Rhode Island Public School system serves to provide quality education to students across the state.



Fundamental Drivers

- Bonds are paid by the City of East Providence's loan payments to the Rhode Island Health and Educational Building Corporation (RIHEBC).
- Loan payments are backed by the city's GO pledge. The city is eligible for 54% reimbursement at a minimum from the state.
- If the city fails to make its loan payment, Basic Education Aid can be intercepted and used to pay the bonds.

Sustainability Drivers

- Bond proceeds to fund the replacement of a deteriorating high school.
- The new high school will have a sustainable design that both optimizes energy usage and improves energy efficiency.
- This project is part of a state initiative to replace inadequate public school buildings in order to provide quality public education.

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An investor cannot invest directly in an index.

The **Bloomberg Barclays Municipal Bond 1-10 Year Blend (1-10)** Index consists of a broad selection of investment-grade general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds with maturities of at least 1 year and less than 10 years. It is an unmanaged index representative of the tax-exempt bond market. Bloomberg Barclays Indices are trademarks of Bloomberg or its licensors, including Barclays Bank PLC. An investor cannot invest directly into an index. BLOOMBERG is a trademark/service marks of Bloomberg Finance L.P. Bloomberg Barclays Indices are trademarks of Bloomberg or its licensors, including Barclays Bank PLC.

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The **Sharpe Ratio** is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Subtracting the risk-free rate from the mean return, the performance associated with risk-taking activities can be isolated. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return. The **Sortino Ratio** measures the risk-adjusted return of an investment asset, portfolio, or strategy. It is a modification of the Sharpe ratio but penalizes only those returns falling below a user-specified target or required rate of return, while the Sharpe ratio penalizes both upside and downside volatility equally. **Beta** is a measure of portfolio volatility. It is equal to the ratio of a portfolio's volatility relative to its benchmark index's volatility over time. It is equal to the excess return of a portfolio over a risk-free investment, minus that portfolio's expected return given its volatility relative to its benchmark index. Alpha is a measure of performance on a risk-adjusted basis. **Alpha** takes the volatility (price risk) of a portfolio and compares its risk-adjusted performance to a benchmark index. **Tracking Error** is the standard deviation of the difference in the portfolio and benchmark returns. **Effective Duration** is a time measure of a bond's interest rate sensitivity, based on the weighted average of the time periods over which a bond's cash flows accrue to the bondholder. **Yield to Worst** is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer. **Yield to Maturity** is the total return of a bond if it is held until maturity. The **Total Return** of a benchmark-, sector-, and portfolio-level are the sum of the returns from price movement and the returns due to payments or other sources of income. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period. The **Contribution to Return** is measured by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return to the reporting period. The **Average Weight** of a position or sector refers to the daily average for the period covered in this report of a stock's value as a percentage of the portfolio.

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.

