BA Beutel Goodman U.S. Value Fund

Q1 2024 Review | March 2024

For institutional investors and professional clients only.

Investment Approach

The BA Beutel Goodman U.S. Value Fund uses bottom-up, fundamental research to invest in companies at discounts to their business value, defined as the present value of their sustainable free cash flow. The managers believe that stocks bought at a meaningful discount to business value may offer an inherent margin of safety[1] and return potential. A focus on quality companies with stable, growing businesses and strong balance sheets should mitigate the potential of permanent capital loss.

- Concentrated portfolio of highest conviction ideas—typically 25-35 holdings in a diversified portfolio.
- Minimum expected return requirement of 50% on initial investment over three years—long-term investors with a multi-year horizon.
- Process-driven sell discipline—one-third sale of stocks that exceed their upside target; secondary review for stocks that exceed their upside or downside targets.

Overview

- The portfolio outperformed the Russell 1000 Value Index over the quarter.
- At the individual security level, the main contributors included American Express Company, NetApp Inc. and Qualcomm Inc.
- Detractors included Biogen Inc., Gen Digital Inc. and Amgen Inc.
- Process-Driven Trims: Masco Corp., NetApp Inc., Ameriprise Financial Inc., Westinghouse Air Brake Technologies Corp., American Express Company, Cummins Inc.
- Full Sales: WK Kellogg Co., Parker-Hannifin Corp.

Investment Results

While concerning geopolitical events continued to unfold during the first quarter of 2024, equity market performance was notable partly for what it did not see in the period: volatility. U.S. equities rose steadily in the period, and even the reality that a March interest rate cut was unlikely did not appear to dampen exuberance, with the Russell 1000 Value Index climbing 8.99%. Energy was the largest contributor to index performance in the quarter, as crude oil prices surged due to production cuts by OPEC and Russia, and continued geopolitical tensions. Financials and Industrials were also top performers. All sector returns were positive in the quarter except for interest-rate-sensitive Real Estate.

The portfolio outperformed the Russell 1000 Value Index during the period. The largest contributor was stock selection in the Consumer Discretionary, Industrials and Information Technology sectors. The portfolio's zero weightings in Real Estate and Utilities were also sources of relative strength. The biggest detractors were stock selection in Health Care and Communication Services, and a zero weighting in the Energy sector. That said, sector and regional allocations in our equity portfolios are driven purely by bottom-up, security-level considerations. As bottom-up stock pickers, we attribute our value add primarily to security selection.

Contributors to performance on an absolute-return basis included American Express Company, NetApp Inc. and Qualcomm Inc. American Express reported its Q4/2023 earnings at the end of January, with record annual revenue of US$60.5 billion representing growth of 14% for the year. The firm also announced an increase in its revenue guidance for 2024 (from 9% to 11%), which was welcomed by the market. NetApp reported strong fiscal third-quarter 2024 results, with record gross and operating margins despite the continued uneven macro environment. Positive commentary on AI-driven growth, which is in its early stages, also contributed to the positive stock reaction. Qualcomm also reported strong quarterly earnings, beating both guidance and consensus expectations. While guidance for fiscal Q2/2024 met expectations, investor enthusiasm was however tempered by management's forecast that Android shipments would be flat for the next two quarters and up only modestly for 2024. The main driver here is a lull in OEM flagship phone launches. On the positive side, 5G phones are set to grow by 10%, which should provide a content tailwind for Qualcomm, and management's confidence in the AI opportunity

Continued on the next page

Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. Commentary on company information is as of each company's fiscal year. Past performance is not indicative of future results.

appears to be growing, which should take a key long-term risk – the maturation of the smartphone market where replacement cycles extended significantly – off the table.

Detractors included Biogen Inc., Gen Digital Inc. and Amgen Inc. Biogen declined in the quarter on weaker-than-expected revenue and earnings per share, due primarily to weakness in Skyclarys, a new drug for Friedrich's ataxia that was recently acquired and launched in the U.S. The company's core pharma portfolio, including the multiple sclerosis franchise and Spinraza, met expectations but didn't provide upside. However, we are patient investors and believe Biogen is on the path to realizing the large commercial potential of its newly launched products. Gen Digital released its Q3/2024 earnings in February, which marked its 18th consecutive quarter of growth. Revenue was up 2% year over year, which was below consensus, and the firm lowered its forward guidance for the financial year 2024. In our view, Gen Digital stock is undervalued relative to the company's positioning and fundamentals, and the firm will continue to benefit from its recurring (and highly profitable) subscription revenues over the long term. Biopharmaceutical company Amgen's stock performed well in January ahead of reporting its Q4/2024 earnings in early February that showed total revenues had increased by 20% to US$8.2 billion year over year.

Transactions

There was a significant amount of trading activity in the first quarter of 2024, with process-driven one-third sales completed on six holdings as the stocks reached our target prices: Masco Corp., NetApp Inc., Ameriprise Financial Inc., Westinghouse Air Brake Technologies Corp., American Express Company and Cummins Inc. We also conducted full sales of WK Kellogg Co., which after review following its spinoff in Q4/2023, was determined to be too small a company for the portfolio, and Parker-Hannifin Corp., which we sold as the return to target following our most recent trim was too low relative to the rest of the portfolio.
We also added to existing positions in a number of companies, including Gen Digital Inc., Comcast Corp., Biogen, Kellanova, Kimberly-Clark Corp., eBay Inc., Interpublic Group of Companies Inc., PPG Industries, Polaris Inc. and Campbell Soup Company.

Outlook

Index concentration – and inherent risk – continued through Q1/2024, though the "Magnificent 7" became the "Magnificent 5" minus Apple and Tesla, the S&P 500 Index's bottom two contributors. This even smaller cohort propelled the index higher, representing a significant 43% of the index's Q1 return. However, there were also broad-based gains across sectors such as Financials, Industrials and Energy. We "missed" all of those magnificent stocks (on purpose, due to valuation risks) and were not well-positioned in the "hot" sectors (no banks and no energy exposure). Despite this, the portfolio still managed to deliver strong returns for the period. We view this as a positive sign that normalcy is starting to return to markets. When some of the unloved stocks in our portfolio start to regain lustre from depressed valuation levels, we can generate attractive returns without taking on undue valuation or expectations risk. Much is expected of the richly valued mega caps, leading to potential for disappointment and valuation deratings. Little is expected from our depressed and misunderstood gems.

Beyond the hype around a handful of stocks, there are plenty of current and future "winners" that present investment opportunities with far lower embedded valuation risk. For comparison purposes, the index's "Magnificent 7" contributed a combined 13.4% to the total index return over the one-year period to March 31, 2024. The weighted average price to earnings ratio of this cohort is currently 31.4x. Meanwhile, Beutel Goodman's "Secret 7", consisting of three Value tech names (NetApp, Qualcomm, Gen Digital), two Financials (American Express and Ameriprise Financial) and two Industrials (Masco and Flowserve) contributed 12.5% towards our portfolio's total return, with a quarter-end weighted average price to earnings ratio of 15.4x. These are less "glamourous" names that benefited from both healthy end-market dynamics and improved investor sentiment, evident in (albeit modest) multiple re-ratings. In our view, these stocks – and indeed many of the holdings in our portfolio – continue to represent attractive return opportunities with downside limited by undemanding valuations.

Although buoyed by continued strength in U.S. equity markets and while not necessarily cheap compared to its own history, our portfolio is at valuation extremes compared to both the broad (S&P 500) and Value (Russell 1000 Value) benchmarks in terms of forward P/E and free cash flow yield. Meanwhile, our quality premium compared to both the Value and broad benchmarks sits towards the higher end of historical ranges.

Disclosures, Terms and Definitions

For institutional investors and professional clients only.

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.

Performance data above relates to the BA Beutel Goodman U.S. Value Fund (the "Fund"). The BA Beutel Goodman U.S. Value Fund was launched under Brown Advisory's Irish UCITS umbrella on 30 November 2020. The performance is net of management fees and operating expenses. This communication is intended only for investment professionals and those with professional experience of investing in collective investment schemes. Those without such professional experience should not rely on it. This factsheet should not be shown or given to retail investors. Any entity responsible for forwarding this material to other parties takes responsibility for ensuring compliance with applicable financial promotion rules. Changes in exchange rates may have an adverse effect on the value price or income of the product. The difference at any one time between the sale and repurchase price of units in the Fund means that the investment should be viewed as medium to long term. This factsheet is issued in the European Union by Brown Advisory (Ireland) Limited, authorised and regulated by the Central Bank of Ireland. In the UK and other non-EU permissible jurisdictions, this factsheet is issued by Brown Advisory Limited, authorised and regulated by the Financial Conduct Authority. This is not an offer or an invitation to subscribe in the Fund and is by way of information only. Cancellation rights do not apply and UK regulatory complaints and compensation arrangements may not apply. This is not intended as investment or financial advice. Investment decisions should not be made on the basis of this factsheet. A Prospectus is available for Brown Advisory Funds plc (the "Company") as well as a Supplement for the Fund and a Key Investor Information Document ("KIID") for each share class of the Fund. The Fund's Prospectus can be obtained by calling +44020 3301 8130 or visiting https://www.brownadvisory.com/intl/ucits-legal-document-library and is available in English. The KIIDs can be obtained from https://www.brownadvisory.com/intl/kiid-library and are available in one of the official languages of each of the EU Member States into which the Fund has been notified for marketing under the Directive 2009/65/EC (the UCITS Directive). In addition, a summary of investor rights is available from https://www.brownadvisory.com/intl/ucits-legal-document-library. The summary is available in English. The Fund is currently notified for marketing into a number of EU Member States under the UCITS Directive. The Company can terminate such notifications for any share class and/or the Fund at any time using the process contained in Article 93a of the UCITS Directive. Certain share classes of the Fund will also be available for subscription in jurisdictions where the Fund may be lawfully privately placed. Please contact Brown Advisory for more information. Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund. This and other important information is contained in the Prospectus, the Supplement, and the applicable KIIDs. Read these documents carefully before you invest.

The Fund is a sub-fund of the Company, an umbrella fund with segregated liability between sub-funds. The Fund is authorised by the Central Bank of Ireland as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 as may be amended, supplemented or consolidated from time to time (the "Regulations"). The Company has appointed Brown Advisory (Ireland) Limited as its UCITS management company which is authorised by the Central Bank of Ireland pursuant to the Regulations and the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations 2019, as amended. The investment manager of the Fund is Brown Advisory LLC. The distributor of the Fund is Brown Advisory LLC.

The Fund is a recognised collective investment scheme for the purposes of section 264 of the UK's Financial Services and Markets Act 2000.

The Fund will be available for subscription only in jurisdictions where they have been registered for distribution or may otherwise be lawfully privately placed. Only certain share classes may be registered or privately placed in some jurisdictions, please contact Brown Advisory for more information.

Brown Advisory is the marketing name for Brown Advisory, LLC, Brown Investment Advisory & Trust Company, Brown Advisory Securities, LLC, Brown Advisory Ltd., Brown Advisory Trust Company of Delaware LLC, Brown Advisory Investment Solutions Group LLC, Meritage Capital LLC, NextGen Venture Partners, LLC and Signature Financial Management, Inc.

The **Russell 1000® Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Index is completely reconstituted annually to ensure that new value-oriented equities are included and that the represented companies continue to reflect the characteristics of the Index. Russell 1000® Value Index and Russell® when related to the Russell indexes is a trademark of the London Stock Exchange Group of companies. One cannot invest directly in an index.

[1]Margin of safety is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value. Even by utilizing a margin of safety strategy, an investor can still lose money.