Quarterly Commentary

Global Sustainable Total Return Bond Strategy (GBP)

PORTFOLIO MANAGERS

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"THE CYCLE IS DEAD, LONG LIVE THE CYCLE"

As we discussed in our Q3 letter, we've been faithfully considering the new paradigm into which the global economy has transitioned, led by structurally higher inflation and lower growth that all central banks are trying to navigate. Opinions seem to have coalesced into two camps. The first camp feels a sense of confidence that central banks will be able to "thread the needle" and navigate a soft landing for their economies despite having hiked policy rates aggressively to combat inflation; the second camp is far less sanguine and is not asking the question of whether recession is avoidable, but rather what type of recession the global economy will face—deep or shallow, short or prolonged. What became apparent to us through the fourth quarter of 2022 is that this debate is still necessary and all is still to play for with regards to the end of the cycle. The global economy has shown resiliency in the face of what have been significant headwinds. Inflation at multi-decade highs, weak global activity, a challenging geopolitical environment, a rapid central bank tightening cycle, negative inflection points within housing markets, and waning fiscal stimulus have all posed challenges. However, growth has bounced firmly back from the negative readings in the first half of 2022 in the U.S., and declining energy prices, thanks to a warmer-than-expected winter in Europe, has been a boon to the U.K. and continental economies. GDP in the U.S. for the third quarter was 3.2%,[1] and the final result for the fourth quarter is likely to show another above-trend reading. European forward-looking data suggests that economies are teetering on the 0% razor's edge of growth, but we believe some short-term respite from the World Cup and help from Mother Nature may help to keep growth in positive territory for Q4. These better-than-expected outcomes can be attributed to many factors that include the still robust labour markets and declining level of inflation, albeit from an extreme level. China's reversal of its COVID-19 restrictions has also put a tailwind behind global growth and risk appetite and suggests that there is a chance that China can once again be the growth engine for the global economy, but we are watching how this evolves. A large population that is mostly unvaccinated may cause fits and starts to this unlocking, and we doubt that it will all happen in a straight line from here. Challenges also remain within the Chinese real estate market and global supply chain reallocations away from China—both meaningful drivers of the overall economy. Alongside the China re-opening story, we believe the single biggest determinant for how asset prices perform this upcoming year centres on the U.S. and the likelihood of recession in 2023. Ultimately, in our view, a requirement for keeping the U.S. economy out of recession and producing the elusive "soft landing" will be a gradual reduction in the

The Brown Advisory Global Sustainable Total Return Bond strategy seeks to take a global, sustainable and dynamic approach to fixed income. We believe that dynamic asset allocation informed by comprehensive top-down macro analysis, combined with rigorous, bottom-up security selection and a differentiated sustainable investment approach, can deliver an attractive stream of income and risk-adjusted returns through the economic cycle while producing positive environmental and social impact.

[1]U.S. Bureau of Economic Analysis.

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Please see the end of the document for important disclosures and a GIPS compliant presentation.

demand for labour while still maintaining a low unemployment rate. Given the recent performance of stocks and bonds along with market expectations that the Federal Reserve will be lowering rates in 2023, we would conclude that a soft landing remains possible but it is still, in our view, a very challenging landing to navigate.

Central banks continued to hike policy rates over the quarter despite a move lower in headline inflation in major economies like the U.S. and Europe, as core inflation has not moved materially closer to target – in fact, core inflation has continued to rise in many countries. The Federal Reserve (Fed), European Central Bank (ECB), Reserve Bank of New Zealand (RBNZ) and Bank of England (BoE) all hiked 125 basis points (bps) in Q4, the Bank of Canada (BoC) hiked 100bps, the Reserve Bank of Australia (RBA) and the Riksbank hiked 75bps, and the Swiss National Bank (SNB) hiked 50bps, while the Bank of Japan (BoJ) stayed unchanged. This is only part of the story for Japan in the quarter, however. Like many, we have wondered how the Bank of Japan might find their way out of the extraordinary monetary policy "Hotel California" within which they've been resident for a decade, and we have had a high-conviction view that Yield Curve Control (YCC) couldn't last in perpetuity. Governor Kuroda and team surprised the market in December by beginning their exit and increasing their tolerance band for 10-year government bonds by 0.25%, and we believe that this is just the first of multiple steps to unwind the program in its entirety. The implications will be felt well beyond Japan, in our view. Japanese investors have long been invested in overseas assets, especially overseas government bonds, and higher local yields for Japanese investors mean that there is ever-increasing reason to repatriate assets back onshore. Japanese investors are some of the largest holders of U.S. Treasuries, French OATs, and Australian government bonds, among others, and we believe this shift away from YCC is likely to increase volatility for fixed income going forward. Another central bank, the ECB, also roiled markets with a stridently hawkish stance taken by President Lagarde and the governing council, and this has helped to reinforce our view that the ECB remains well behind the curve in tightening monetary policy and will need to play continued catch up to the Fed and other central banks. What is clear is that while the size of hikes has decreased for some central banks like the Fed and BoE, there are still more hikes to come.

MARKET REVIEW AND PORTFOLIO PERFORMANCE

The fourth quarter of 2022 was highlighted by a meaningful amount of volatility across asset classes. Global rates—especially in the U.K.— moved higher in October driven by the budget-busting economic plan delivered by the short-lived Liz Truss government and subsequent liability-driven investment (LDI) meltdown. The bond market then rallied sharply from November to mid-December, before moving higher again following hawkish commentary from the ECB and the change in the BOJ's YCC. German 10y yields were 45bps higher over the quarter, U.K. 10y yields were 42bps lower, and while U.S., Australian, New Zealand, and Canadian 10y yields all ended the quarter anywhere from 5 to 15bps higher, the trading ranges over the quarter for all markets were still substantial in our view. New Zealand 10yrs traded in a 75bps range, German 10yrs traded in a 79bps range, US 10yrs traded in an 83bps range, Australia and Canada 90 and 91bps apiece, and U.K. 10s traded in a 146bps range from peak to trough.

The U.S. dollar—after an incredible run in the first three quarters of 2022—finally saw some sustained weakness in Q4, with the broad dollar index down 6.8%[2] over the quarter. The biggest G10 outperformers against the dollar in Q4 were, perhaps unsurprisingly, the currencies that had suffered the most in the first nine months of the year, namely the Japanese yen, Norwegian krone, and New Zealand dollar. This was the same in the emerging world with the biggest nine-month underperformers mean-reverting to the top of the table in Q4: Polish zloty, Hungarian forint, and South Korean won.

Corporate credit generally performed well over the course of the quarter: U.S. Investment Grade (IG) was 29bps tighter, U.S. High Yield (HY) was 83bps tighter, Euro IG was 55bps tighter, and Euro HY was 119bps tighter.

The Global Sustainable Total Return Bond GBP composite underperformed over the quarter, down 0.52% net of fees in absolute terms over the three months and underperformed its secondary benchmark, the Bloomberg Global Aggregate 1-10 year (GBP hedged) by 1.41%.

[2]Source: Bloomberg, Bloomberg Dollar Spot Index.

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The benchmark is the SONIA (Sterling Overnight Index Average) Index of very short-term unsecured loans between U.K. financial institutions. Secondary benchmark is the Bloomberg Global Aggregate 1-10 Year Total Return Index (GBP Hedged). The composite performance shown above reflects the Global Sustainable Total Return Bond GBP composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Global Sustainable Total Return Bond GBP composite disclosure statement at the end of this document for a GIPS compliant presentation. The Composite inception date is February 1, 2022.

Portfolio level information shown above is based on a representative Global Sustainable Total Return GBP account and is provided as Supplemental Information.

OUTLOOK

We still expect that significant weakness for the global economy is ahead of us, not behind us. The full effects of interest rate increases have yet to be felt and economic leading indicators continue to deteriorate. Historically, survey measures of new orders for both the service and manufacturing sectors of the economy, released by the Institute for Supply Management in the U.S., for example, have been reliable indicators of future activity. Both are indicating a weaker environment ahead. Housing sectors are already in recession due to the rapid increase in mortgage rates and are unlikely to experience a meaningful bounce in the near future. We believe the key, however, to the accuracy of our forecast will be how labour markets evolve over the course of the year. Job openings are elevated and unemployment remains low. In the U.S., the consumer personal savings rate continues to decline and revolving debt is increasing at an alarming rate as people dip into savings and borrow money to meet financial obligations from soaring prices. Yet, they are still employed and thus paying their bills and consuming goods and services. Recently, the Federal Reserve has shifted its focus in the fight of inflation, and has now joined other central banks like the BoE in explicitly stating their goals. The stated goal is now to weaken the labour market in order to exert downward pressure on wage gains and we remain sceptical of their ability to strike the right balance. Therefore, if the unemployment rate moves higher, along with weakness in other sectors, recessions in the U.S. and Europe will be the most likely outcome, in our view. We do expect inflation to moderate, potentially more than central banks forecast, but don't anticipate a meaningful loosening of monetary policy. A restrictive level is likely to be maintained for some time.

While the depth of the recession may be shallow, the following recovery may be weak as the historical policy support may be slow to materialize. In this environment, we are particularly concerned about eroding fundamentals in corporate credit. Weaker revenue and higher wage costs will likely pressure operating margins and earnings. Additionally, firms will likely be refinancing at materially higher rates than the recent past. We added to our credit underweight early in the quarter, however we expect credit spreads to widen from current levels and intend to continue to hold an underweight position on the expectation of adding at more attractive valuations. We do not expect longer term global yields to be nearly as volatile as 2022 and are biased for lower rates later in the year. The shape of the yield curve is likely to steepen, in our view, as expected rate cuts become more likely as the year progresses. We believe that higher quality securitized assets should hold up well yet we remain cautious on securitized credit, particularly those backed by collateral we view most at risk. We view emerging markets debt as a particularly interesting asset class given economic and monetary policy cycles in select countries. Similarly, we believe that the peak of the U.S. dollar is likely behind us, which may provide some compelling opportunities in currencies both on a directional and carry basis, as well as relative value opportunities between countries. Overall, we expect a less eventful year for fixed income and one that produces meaningful positive return.

We thank you for your support and interest in the strategy.

Chris, Ryan and Colby

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SONIA (Sterling Overnight Index Average) is an index of very short-term unsecured loans between U.K. financial institutions.

The Bloomberg Global Aggregate Bond Index (GBP Hedged) represents a close estimation of the performance that can be achieved by hedging the currency exposure of its parent index, the Bloomberg Global Aggregate Bond Index, to GBP. The index is 100% hedged to the GBP by selling the forwards of all the currencies in the parent index at the one-month Forward rate. The parent index is composed of government,government-related and corporate bonds, as well as asset-backed, mortgage-backed and commercial mortgage-backed securities from both developed and emerging markets issuers.

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Brown Advisory
Global Sustainable Total Return Bond (GBP) Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Composite 3-Yr Ann. Standard Deviation (%	Bank of England's SONIA Compounded Index		Bloomberg Global Aggregate Bond Index (GBP Hedged)		Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets ($GBP MM)*	GIPS Firm Assets ($USD MM)*
				Benchmark Returns (%)	Benchmark 3-Yr Ann. Standard Deviation (%)	Benchmark Returns (%)	Benchmark 3-Yr Ann. Standard Deviation (%)				
2021**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Five or fewer	N/A	N/A	79,715

**Performance not available for the period since the Composite inception date is February 1, 2022.

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4. The Composite creation date is February 28, 2022. The Composite inception date is February 1, 2022.
5. The Composite benchmarks are the Bank of England's SONIA Compounded Index and the oftware issues and other Bloomberg Global Aggregate 1-10 Year Total Return Index (GBP Hedged). The Bank of England's SONIA Compounded Index is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal. SONIA is measured as the trimmed mean of interest rates paid on eligible sterling denominated deposit transactions. The Bloomberg Global Aggregate 1-10 Year Total Return Index (GBP Hedged) represents a close estimation of the performance that can be achieved by hedging the currency exposure of its parent index, the Bloomberg Global Aggregate Index, to GBP and limiting to bonds with maturities between 1 and 10 years. The Index is 100% hedged to the GBP by selling the forwards of all the currencies in the parent index at the one-month Forward rate. The parent index is composed of government, government-related and corporate bonds, as well as asset-backed, mortgage-backed and commercial mortgage-backed securities from both developed and emerging markets issuers. SONIA and/or SONIA Compounded Index data licensed under the Open Government License v3.0 and copyright the Governor and Company of the Bank of England. The trade marks "Bank of England" and "SONIA" are registered trade marks of the Bank of England. "Bloomberg®" and Bloomberg Global Aggregate Bond Index are service marks of Bloomberg Finance L.P. and its affiliates including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Brown Advisory. Bloomberg is not affiliated with Brown Advisory, and Bloomberg does not approve, endorse, review, or recommend the Global Sustainable Total Return Bond strategy. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the Global Sustainable Total Return Bond (GBP) Composite. 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, converted to GBP at the prevailing exchange rate: 0.50% on the first $50 million; 0.30% on the next $50 million; 0.25% on the next $50 million; and 0.20% on the balance over $150 million, with a minimum account market value of $100 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 investment management fee for the Sterling Class C Shares of the Brown Advisory Global Sustainable Total Return Bond Fund (GBP) (the UCITS), which is included in the composite, is 0.15%. The total expense ratio for the Sterling Class C Shares of the UCITS is 0.35%. Further information regarding investment management fees and expenses is described in the fund prospectus.
9. 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, 2021 because 36 month returns for the Composite were not available (N/A) and the Composite did not exist.
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11. The strategy may employ leverage, but it is not integral to the investment process. The strategy may borrow up to 10% of its Net Asset Value on a temporary basis. It is not intended to borrow for leverage purposes. The strategy may also be leveraged through the use of derivatives, and under normal circumstances is not expected to exceed 500% of its Net Asset Value.
12. Valuations and performance returns are computed and stated in British Pounds. All returns reflect the reinvestment of income and other earnings.
13. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
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