

Global Focus Strategy

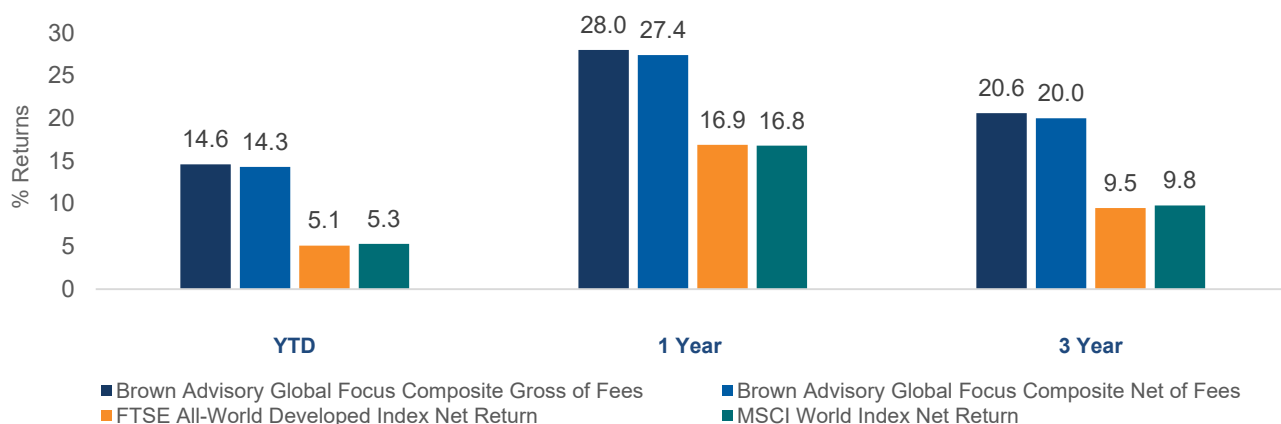
ANNUAL INVESTMENT LETTER | Sept 2020

Dear fellow investors, colleagues and friends,

What a momentous year it has been. As I sat down to write this letter last year on the strategy's second anniversary, it was hard to imagine how the world would change over the subsequent twelve months. The COVID pandemic has impacted all of our lives in ways that were previously unimaginable and we hope that you are safe and well at this odd time. It is also incredibly difficult to predict when things will get back to the way they were last year—both behaviourally and also economically given the level of stimulus that has been unleashed around the world. Despite this uncertainty, we are pleased to report that in some regards not that much has changed for the companies in which we are privileged enough to invest our partners' capital. Their dominant positions are still very much in place, and in many cases strengthened, with a set of moats that combine to create economic fortresses that prevent capital flowing into their industries. Even for three of our companies, Woodward, Safran and CTS Eventim, that have been in the eye of the COVID storm, we feel their long-term prospects are as attractive as ever with management teams that have responded admirably to collapses in demand. Against this backdrop we are happy to report that three years into the Global Focus odyssey we have delivered 10.48% annualised outperformance (net of fees) since launch after returning 14.3% this year and 72.8% cumulative absolute performance (net of fees) since inception on 1st September 2017. Three years is only 60% of the way through our minimum investment horizon of five years with our overriding ambition being to compound our clients' capital for multiple decades. We are nevertheless incredibly grateful for all the support and conversation we have had with you over the last three years.

Annualized Performance as of August 31, 2020

Global Focus Composite



Source: FactSet®. All returns greater than one year are annualized. Past performance is not indicative of future results and you may not get back the amount invested. The primary benchmark is the FTSE All-World Developed Net Index. The MSCI World Index is for illustrative purposes only. The composite performance shown above reflects the Global Focus 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 Focus disclosure statement at the end of this presentation for a GIPS compliant presentation.

Lost at Sea

As we have mentioned before our approach to investing is deliberately highly selective—we are looking to invest in 10-15 dominant business models, with improving return profiles and investor-managers that we think have fantastic five year Internal Rate of Return (IRR) potential. This focus is designed to provide both offense, in alpha generation, but also defence as the activity of concentrated investing can be risky if not approached methodically. Such a defined approach might sound simple but it most definitely isn't easy. Most of our energy is focused on remaining perpetually paranoid about our companies' competitive positions and the strength of their economic fortresses whilst also looking for similar businesses to bring into the strategy. Our north star for capital allocation within the strategy is our IRR framework. Our analysts produce five year free cash flow forecasts for each investment with three scenarios—bull, base and bear cases. We then use a standard discounted cash flow (DCF) model to derive a fair value multiple at the end of the five year period which provides three different IRRs. Our ambition is to invest in companies where we can see comfortable mid-teens five year IRRs on a base case scenario at initiation with limited downside in the bear case. As well as remaining paranoid about our companies' competitive positions we continually reappraise our expectations for the free cash flow streams that we think each company can produce.

Throughout the COVID crisis we have made upward and downward revisions to our expectations of long-term free cash flow and in some instances very little has changed. One reason why this process is difficult is due to the ongoing challenge of understanding the difference between signal and noise. As investors it is very easy to be lost at sea and battered by waves of information that is unhelpful at best and misleading at worst in our quest to appraise value. This is largely expiring knowledge¹—information that seems incredibly important at the time but has limited long-term value. Like filling station flowers, this information is perishable and has limited shelf-life. We would put intraday share price movements, short-term performance, most information in quarterly reports, nearly all sell-side research, short-term economic data and backward looking risk-metrics in the perishable information bucket. We believe the importance of free cash flow, time value of money, how companies make money (their business models), interlocking moat (fortress) evolution, capital allocation choices and ultimately human behaviour are examples of long-term knowledge. Although it may feel like the world has been turned upside down this year, it is no surprise to us that not that much has changed to the long-term picture for nearly all of our companies. Accordingly name turnover within the strategy has been non-existent and many of our target companies have remained fully valued. In our experience monopolies and duopolies, economic fortresses and outstanding management teams do not spring up overnight and, although we remain vigilant, it takes a long time to dislodge these types of companies.

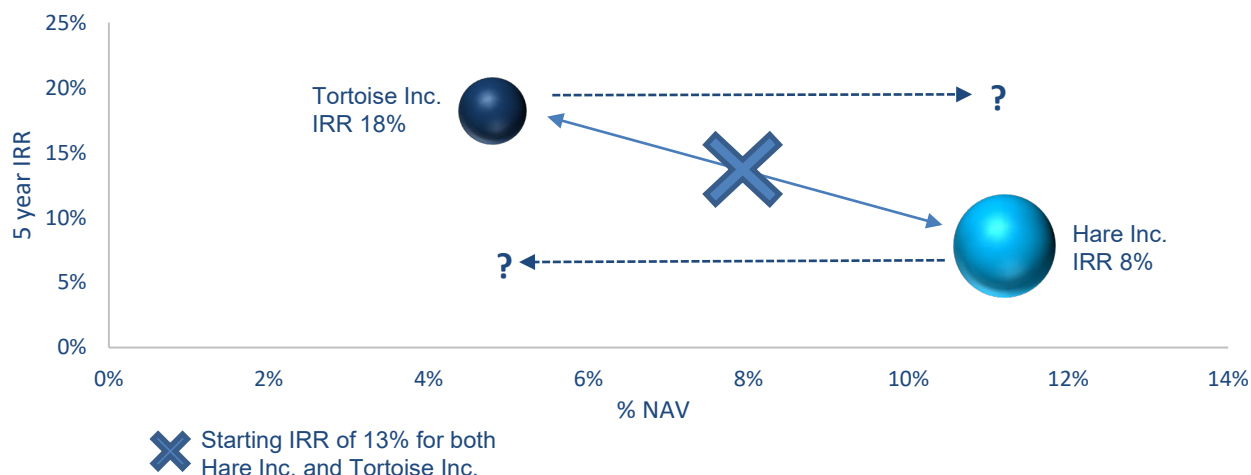
Expiring Information	Long-Term Knowledge
Short-Term Share Price Movements	The Importance of Free Cash Flow
Most Quarterly Reports	The Time Value of Money
Economic Data	Business Models
Risk Metrics	Fortress Evolution
Most Sell-Side Research	The Capital Allocation Toolkit
Short-Term Performance	Human Behaviour

Source: Brown Advisory.

As mentioned, we view short-term share price fluctuations as forms of perishable information and it is incredibly easy to let equity market noise be construed as signal. We firmly believe that equity markets are inefficient over short time frames but more efficient over longer time frames. Given this credo we view volatility not as risk but as opportunity and whilst short-term share price movements are forms of expiring knowledge, if knowledge at all, they can provide opportunity as we will touch on later with the three companies in our portfolio that have been most impacted by COVID-19. This opportunity presents itself as short-term price movements that are driven by greed and fear in the high seas of the equity markets which we look to exploit in our capital allocation process. Let's imagine two hypothetical companies, Hare Inc. and Tortoise Inc, with the same starting return potential and expected five year IRR of 13%. We decide to purchase both companies at an average weight of 8% net asset value (NAV). Both companies produce identical financial performance but Hare's business captures the imagination of equity investors with an attractive narrative whereas Tortoise's doesn't resulting in divergent equity price performances. Accordingly the IRR for Hare deteriorates to 8% whereas the IRR for Tortoise improves to 18%. There is no doubt value in this volatility for long-term investors and, ceterus paribus, we would look to increase our exposure to Tortoise and reduce our exposure to Hare in our capital allocation process. Whilst this is seemingly simple it is easy to mistake noise for signal and get lost in the waves of valueless information in the equity market sea. We hope that our IRR framework, that forms the backbone of our capital allocation process, will continue to help us focus on the horizon and deliver great returns for our partners as we increase our exposure to more Tortoise-esque companies with great IRRs.

¹Expiring knowledge is a term popularised by Morgan Housel in the following memo: <https://www.collaborativefund.com/blog/expiring-vs-it-knowledge/#:::text=Expiring%20knowledge%20tells%20you%20what%20is%20likely%20to%20happen%20again.> We recommend reading his book 'The Psychology of Money: Timeless lessons on wealth, greed and happiness'.

Hare Inc. vs. Tortoise Inc.



Source: Brown Advisory analysis. The above graphic is for illustrative purposes only and does not represent an actual investment.

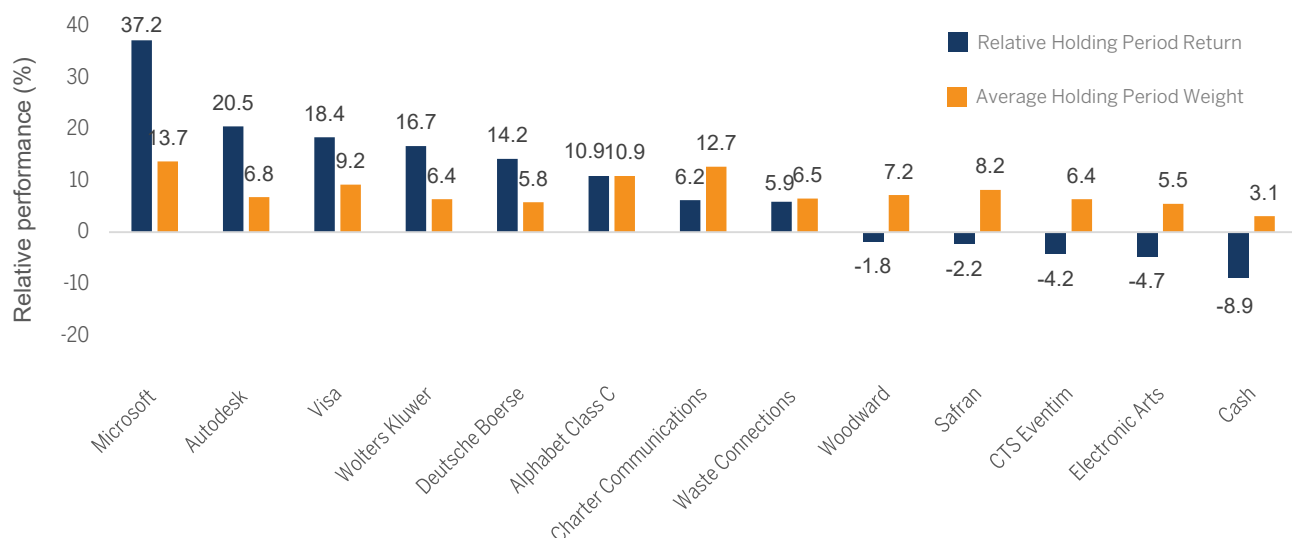
Rearranging Deckchairs on the Titanic

Early on in the COVID crisis we had an illuminating session with the behavioural consultants that help us become better capital allocators. As we have mentioned before we recognise that human beings are severely disadvantaged for the activity of investing as many of our behaviours have been derived from evolution—however hard we try it is impossible to overturn two million years of human development. In addition we actually believe we can improve as investors, with the right feedback and a growth mind-set, and view the consultants as our capital allocation coaches. With only 12 investments and a 36 month track record we also need to be a little careful of overly interpreting the Global Focus Strategy data. Having said that, we are pleased that we have added value from both of our processes. Firstly stock-picking with 8/12 of our investments having generated alpha over the three years (see chart below) which equates to a 67% hit rate. Despite the concentration we have also added value with sizing (capital allocation) but interestingly the consultant made the observation that, according to their interpretation of the data, we should have let our largest positions (>11% NAV) run. It's an evergreen challenge to resist what Peter Lynch famously labelled pulling out the flowers and watering the weeds²—especially when IRRs remain attractive. Indeed one of the many nonsensical, and most damaging, phrases in investing is: *"It's never wrong to take a profit"*. It is easy to forget that in an equal-probability and equal-weighting setting selling a position with 200% upside is worse than buying a new investment with 100% downside. Thankfully we haven't had too many weeds, or at least companies that have proven themselves to be long-term weeds yet, though we have some companies whose blooms haven't always been appreciated by the average investor. The other suggestion that the consultants made was, given our hit rate, that we should be more aggressive when we add to our underperformers—even modest underperformers that haven't hit our 20% drawdown limit (which we will discuss shortly). Such is the psychology of investing and how we are predisposed to avoid pain and embrace pleasure that it is very easy to undersize additions to underperformers that still have long-term potential and not act decisively by selling only part of a position when an investment thesis changes. I call this the *Rearranging Deckchairs on the Titanic* syndrome—by making small additions to underperformers with long-term potential and small sales with investments when the thesis has changed we might psychologically feel that we are doing something meaningful but we are overlooking a much larger issue. It is all too easy to do, especially in a concentrated strategy, and we have a behavioural rule for when an investment thesis changes that we have to exit entirely, but it's a point well made by the coach for all underperformers, whether they are subject to a drawdown review or not.

² *"You won't improve results by pulling up the flowers and watering the weeds"*, Peter Lynch, *One Up on Wall Street: How to use what you already know to make money in the market*.

Inception-to-Date Annualised Relative Investment Performance as of August 31, 2020

Representative Global Focus Account (% relative performance gross of fees)



Source: FactSet®. Past performance is not indicative of future results and you may not get back the amount invested. The primary benchmark is the FTSE All-World Developed Net Index. 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. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for important disclosures.

The Past is A Foreign Country: They Do Things Differently There³

The above line is the immortal opening sentence to one of my favourite books growing up, L.P. Hartley's *The Go-Between*, and it's as poignant as ever—it is all too easy for the past to be misrepresented in our minds. Indeed when it comes to decision-making and the role of luck, outcome bias, where our perception of the decision-making process is influenced by the outcome, can have a major impact on our memories of the foreign countries of the past. Indeed counterfactual thinking, when we explore alternatives to past events, can be incredibly helpful for our understanding of the role of outcome bias. *How would the world look if the Manhattan Project had failed? What would have happened to the technology landscape if Microsoft wasn't subject to antitrust scrutiny in the 1990s? How different would the financial industry be if more banks were allowed to fail in the Global Financial Crisis of 2008/09?* These are all examples of counterfactual questioning—an exploration of alternate realities as if certain events hadn't happened. Of course the passage of time makes the outcome of events feel inevitable and underweights the role of luck vs the role of skill in the decision-making leading up to these events. This bias was omnipresent this last year with the pandemic when some of our companies have benefitted hugely from change whereas others have been severely impacted. Satya Nadella, the CEO of one of our largest investments Microsoft, famously remarked on their results call in April that his business was seeing significant tailwinds from the crisis.

*"As COVID-19 impacts every aspect of our work and life, we have seen two years' worth of digital transformation in two months. From remote teamwork and learning, to sales and customer service, to critical cloud infrastructure and security, we are working alongside customers every day to help them stay open for business in a world of remote everything."*⁴

A pandemic didn't feature in any of our five year scenarios when we invested in Microsoft in 2017 when we started the Global Focus strategy. The reason we like the company is its two monopoly assets (Office and Windows) and its duopoly/oligopoly positions in servers and cloud which contribute to >80% of the company's free cash flow. We expected Microsoft to be a major beneficiary of digital transformation in the enterprise but we had no idea of the impending quantum leap that COVID would bring at the start of 2020. Indeed many of our companies have seen their businesses turbocharged by the pandemic, notable examples include Charter's broadband services and Electronic Arts's Ultimate Team, as they benefited from an acceleration of long-term trends. What we didn't predict was the speed of a number of these shifts in 2020. Despite this reality it is very easy to let the outcome impact our view of the investment case and we would caution against feting investors who have benefitted from the COVID darlings of the equity market such as Amazon, Zoom and Ocado. By the same token it is equally important not to let short-term outcomes cloud our perceptions of the companies that have been unexpectedly negatively impacted by the pandemic. These companies were accordingly subject to drawdown reviews as they hit our 20% share price decline from purchase or 20% relative underperformance triggers. When a company hits one of these triggers we have an automatic review and, to fight loss aversion, we have to take one of two actions—we either buy more or we exit our investment. Accordingly we thought it would be helpful to update you on the three companies that we reviewed on this basis this year:

³ L.P. Hartley, *The Go-Between*.

⁴ Microsoft CEO Satya Nadella, Q320 Results Conference Call.

1. CTS Eventim

CTS Eventim is Europe's leading live entertainment specialist with the majority (>80%) of free cash flow being derived from its ticketing network where it connects 500 promoters with concert goers in Germany, Austria, Switzerland (the DACH region) and Italy. The company has an effective monopoly with 90% share in ticketing in the DACH region and >60% in Italy with its primary function being to de-risk live events for promoters by helping them place tickets with fans for a 12-14% take rate. With 88 million unique user profiles, we believe CTS Eventim is positioned to benefit from structural growth in live entertainment as artists in today's Spotify and Apple Music world make the majority of their income from live performances which fosters >3% annual ticket price inflation. The company's two-sided network and switching costs for the promoters form the backbone of CTS's economic fortress that prevents new capital from flowing into the industry. In addition we see significant optionality from e-commerce, the ongoing shift of tickets to online and France, where the company is in the process of acquiring the country's leading ticketing network France Billet. In previous recessions CTS has been surprisingly resilient, as fans see live entertainment as an affordable luxury—revenue grew by 5% and 15% in 2008 and 2009 respectively. The reality is that each crisis is different and never more so than for CTS Eventim with the banning of mass gatherings in the DACH region. Accordingly revenue and profits collapsed by 97% and >100% in the second quarter of 2020. As these events unfolded we recalibrated our forecasts and decided to buy more CTS Eventim shares in March as we felt that the long-term attractions of the business remained intact, the competitive picture hadn't deteriorated, the company's net cash balance sheet gave it enough liquidity to survive a prolonged storm and we saw high-teens five year IRRs. Although it is early days there are some signs of encouragement with multiple vaccines, therapeutics and affordable tests likely to turn the tide against the virus and artists have started to perform to fans in limited capacities. Popular German rapper Apache 207 recently announced a large number of low capacity shows rather than a handful of large capacity (>10k fans) concerts with the tickets being placed through the CTS Eventim network. Encouragingly recent survey⁵ responses point to significant pent up demand from fans when restrictions subside. In addition there is a build-up of new content as artists are clamouring to perform live with some choosing to delay releasing new music without live entertainment to promote it. This trend was echoed by the CEO of CTS Eventim's main competitor Live Nation, Michael Rapino, on their recent second quarter results conference call (*see below*). We think CTS's future remains bright and with our long-term time horizon we have been able to seize the opportunity that COVID has provided for our investors.

"So, yeah, I think '21, you have artists that are all just keep calling me daily, saying, when can I go? When's it going to be safe? When are we going to go? I'm dying to go. I've got new music, I want to drop music. So, I think this is why we believe long-term, regardless of what quarter we exactly scale at, the business will be stronger than ever with the creative push by all these artists who need to get on the road to drive their new music.

So, '21, '22, we can debate what quarter exactly ramps, but we believe '21 into '22' will be record years with artists on the road who are pent up. They need to get on the road economically and they're now powered by creative backlog and they're all waiting. I talked to another this morning. They were going to release in November, they're going to wait till March now, so they can coincide with the tour scheduled later in the year in '21.

*So huge demand. We are very gifted in this industry in that we have an incredible supply chain of ongoing creative geniuses who make their living connecting with fans on the road. So, that will continue."*⁶

2. Woodward

Woodward is a niche aerospace and industrial component manufacturer that specialises in fuel systems, controls and actuators. Woodward's aerospace business has historically accounted for approximately 80% of the company's cash flow. The business model is centred on unique content that is only supplied by Woodward. This feature gives the company monopoly positions with products that have incredibly high switching costs and long lifecycles (25+ years). The other attractions are that Woodward has been successful in winning significantly more (2-3x) content on next generation narrow-body aircraft, the A320 Neo and Boeing 737 Max, in commercial aerospace and the F35 in defence. This set-up means that we expected the company to be exposed to above industry growth in the near term and to also benefit from high margin aftermarket cash flows in the mid-2020s as the next generation narrow-body aircraft come in for engine overhauls in their first cash flow event—the shop visit. In addition we expected the company's free cash flow to inflect after an extended period of investment leading to lower capital intensity and a reduction in net working capital due to their True North efficiency program. As we know the pandemic has resulted in the worst crisis for the aviation industry since the Wright Brothers took off at Kitty Hawk. Woodward wasn't unscathed and reported a 39% decline in aerospace and a 30% decline in group sales in their most recent quarter (Q3 2020). Quite remarkably the company managed to flex its operating and capital costs resulting in a 2.8x increase in free cash flow in the same period. Looking longer term we feel that although our investment thesis has been delayed due to COVID it otherwise remains on track and the negative price action has enabled us to increase our exposure to what we feel is a high quality, and largely misunderstood company. Part of this belief stems from our recalibration of expectations for Woodward's free cash that underpins our IRR framework. We currently don't expect Woodward's commercial aerospace revenue to recover to 2019 levels until 2025 which is a year later than industry body IATA's forecasts. Even baking in this margin of safety we still see an attractive five year return profile for our investors.

⁵ CTS Eventim and Live Nation data.

⁶ Live Nation CEO Michael Rapino, Q2 2020 Results Conference Call.

3. Safran

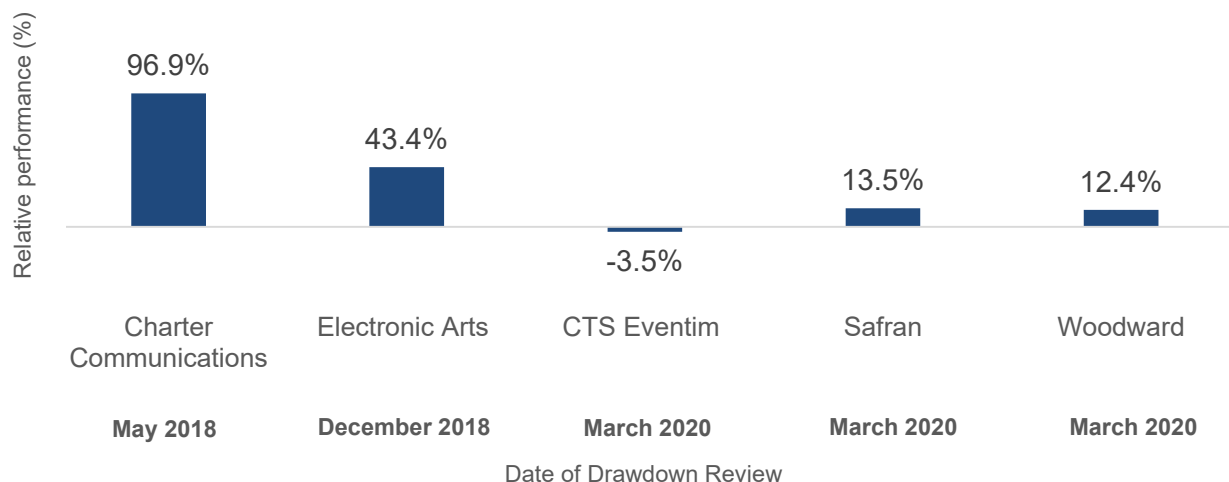
Safran rounds out the trio of companies that were subject to drawdown reviews this year and in many ways the playbook is similar to the one I outlined with Woodward. The majority of Safran's profits and cash flows are derived from its aircraft engine (propulsion) business unit where the company has >80% market share on narrow-body aircraft providing engines to all Boeing 737s and the majority of Airbus A320s through its CFM International joint venture with General Electric. Safran's engines have a 25+ year life and the company operates a classic razor-razorblade business model. The company sells each engine for negligible profits but collects significant aftermarket revenue at 40-50% cash margins when, by aviation law, each engine has to be overhauled every 6-8 years (the frequency depends on usage) resulting in the same cash flow event we touched on with Woodward—the shop visit. Shop visit revenue is primarily from spare parts and the company enjoys significant pricing power (+4% under normal conditions) as the airline is captive. Despite the impacts from COVID we remain positive on long-term air travel and expect passenger volume growth to return to historic levels (+4% annually) by 2024 due to population growth and the rising middle class in Asia. As with Woodward there is a delay as to when this recovery feeds into Safran's financials with our expectation being that propulsion sales don't recover to 2019 levels until 2025. We have embedded the same margin of safety relative to IATA forecasts for Safran as we have for Woodward. It's worth remembering that narrow-bodies serve domestic and intra-continental travel which is more resilient than long-haul and current domestic air traffic volumes in China are effectively flat year on year at the time of writing. In addition 85% of Safran's legacy installed base have had one or less shop visits (45% have had no shop visits) and the company has a significant order book, which has seen minimal cancellations in COVID, of LEAP engines on the next narrow-body A320 Neo and 737 Max aircraft. There have been no shop visits for the next generation of engines and we expect the current order book to be able to deliver inflation-protected, through pricing power, profits and free cash flows into the 2050s. As with Woodward we feel that our investment thesis for Safran isn't broken due to COVID but merely delayed with the negative price action in Safran's shares more than reflecting the timing adjustment in the company's net present value.

Source: All company data sourced from the company—CTS Eventim, Woodward and Safran—unless otherwise noted.

Although it's early days since our drawdown reviews when we added to our investments in CTS Eventim, Woodward and Safran in March, we wanted to show their initial performance relative to the other two drawdown reviews, Charter and Electronic Arts, in the Global Focus strategy's three year history.

Relative performance of our investments after adding following a drawdown review

As of August 31, 2020



Source: Brown Advisory Calculations. Past performance is not indicative of future results and you may not get back the amount invested. The primary benchmark is the FTSE All-World Developed Net Index. 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. Portfolio information is based on a representative Global Focus account and is provided as supplemental information. Please see the end of this presentation for additional information and for a complete list of terms and definitions.

Near Misses

Most investors solely focus on acts of commission, e.g. XYZ superstar fund manager was a genius for buying Zoom whereas XYZ former superstar fund manager was an idiot for investing in the Wirecard fraud. The temptation is to focus on what we can see whereas as we have already discussed counterfactual thinking is equally as important, i.e. *What would have happened if you had bought Company A vs Company B?* As highly selective investors with only twelve investments and two additions over three years this analysis is incredibly important and one we go through with the behavioural consultants as we try to explore how we can get better and deliver outstanding returns for our partners. Accordingly we want to touch on two near misses this year:

1. Pennywise and Pound Foolish: Credit Rating Agencies

We have long been admirers of the U.S. credit rating agencies. These companies operate in parallel monopolies with clear frenemy status as most bonds are dual-rated and they benefit from the long-term tailwind of debt securitisation. The economic fortresses surrounding these businesses are formidable—it is our belief that regulatory pressures had subsided following the Global Financial Crisis and that starting a Nationally Recognized Statistical Rating Organisation (NRSRO) is an arduous process. Significant upfront investment, regulation, intellectual property, network effects and switching costs make starting a successful major NRSRO from a greenfield position virtually impossible. We believe the main product—the credit rating—delivers significant benefits to the customer as bond issuers get material interest savings from having their debt rated which equates to an incredibly quick payback on the issuing costs they pay to the rating agencies. This in turn enables the rating agencies to enjoy pricing power of +3% annually, which in combination with high fixed costs, drives healthy incremental margins that aid compounding. In addition after significant work we viewed debt issuance as being mean-reverting over time and saw further structural growth from securitisation in debt in Europe and the emergence of western NRSROs in China. So the obvious question is: *If these are such attractive businesses why do you not invest in them?* We came incredibly close in the depths of the crisis in March and despite coming within 10% of our entry price for one of the rating agencies, where we saw an attractive long-term IRR, we didn't pull the trigger as we held out for further weakness as debt issuance historically tracks GDP. As we all know the speed and size of monetary intervention, especially by the Federal Reserve, was rocket fuel for the equity markets and, frustratingly, the debt markets with record bond issuance in the second quarter of 2020. At the time of writing the share price of the company in question has returned over 80% from the March lows and we have no exposure to the rating agencies currently. As mentioned outcome bias is a powerful thing—in hindsight our decision was terrible and we should have pulled the trigger but counterfactually if stimulus had been delayed we might well be invested now. Simple but definitely not easy. Either way I have the words of one of my all-time favourite investors, Philip Fisher, ringing in my ears as we continue to monitor these outstanding businesses which we currently view as having unattractive five year IRR profiles on our framework.

*"For the great majority of transactions being stubborn about a tiny fractional difference in the price can prove extremely costly."*⁷

2. Travel Software Trustafarians

Elsewhere we did considerable work over the summer on a European technology company, let's call it 'Icarus', that has two businesses—a Global Distribution System (GDS) network that connects airlines with travel agents to book flights and hotels and an airline IT system that helps airlines manage their value chain from customer booking to departure control. On the face of it the company has a number of the attributes that we look for—a dominant oligopoly position in its GDS business and an effective duopoly in airline IT, an economic fortress based on network effects and switching costs and a history of pricing power. In addition the management team had been successful in taking market share and delivering innovation in the airline IT business. Finally the company's approach to money-making, the business model, on both sides of the group is a classic toll-both with the company charging a fee per booking on the GDS side and per passenger boarded on the airline IT side. This set-up is closer to the payments network we invest in, Visa, than Autodesk or Microsoft. The company was severely impacted by the same travel-related COVID headwinds that had created near-term turbulence for Woodward and Safran. Against this backdrop we could see a mid-teens IRR over 5 years in a post-COVID world—another major attraction of the investment case. So, like the rating agencies, the same question applies: *If this is such an attractive business why did you not invest?* During our due-diligence we spoke to numerous customers and industry participants. Here are some of the more illuminating responses:

- *"GDSes are a necessary evil - you have to live with them and you can't live without them"*
- *"The GDSes want you to file a full content package - this is really when they hold you hostage"*
- *"It's Stockholm syndrome! You were kidnapped."*
- *"Icarus will approach companies saying sign long contracts - they will be doing a deal with the devil."*
- *"The big traditional airline IT companies hold a grip on the market - they are like a rentier."⁸*
- *"Bigger airlines will be able to invest and fight back. Icarus needs to be genuinely investing. It is not like Google - the business model is currently based on captive customers."*
- *"It is a love-hate relationship - if I was an airline I would think very hard before buying one of the systems."*
- *"All airlines pay the fees reluctantly - it is like a tax - do we like paying tax? No."*
- *"The technology is old and up for disruption."*

⁷ Philip A. Fisher, *Common Stocks and Uncommon Profits and Other Writings*. (Page 250).

⁸ A rentier (French) is a person whose money comes from investments and therefore doesn't have to work.

A necessary evil, held hostage, Stockholm syndrome, doing a deal with the devil, rentier and technology disruption are not the descriptions of a company that we want to invest our partner's capital into. What became clear from these conversations is that the company's customers have a love-hate relationship with Icarus and they reluctantly pay for their services. Investors frequently forget the importance of the customer—the source of all value creation. We have some sympathy for Icarus as their major customers, the airlines, operate in one of the toughest industries on the planet. The reality is that poor customer relationships increase the incentive for the customer to move to a better solution and, regardless of the strength of the fortress, this creates a major business risk as if the abuse endures long enough, there is a significant pot of economic gold for the company that is able to breach the incumbent's defences.⁹ We have no qualms about not investing in Icarus as, despite the attractive return profile, we felt that deteriorating customer relationships have created a level of business risk that we were uncomfortable with. We will probably experience considerable outcome bias in the years to come if the company delivers the share price returns we think it is capable of but the counterfactual possibility of a mass customer exodus is a risk we are not prepared to take. Our approach is highly selective to maximise alpha and limit the risks to which we are exposing our partners. As pharmaceutical pioneer George Merck reminds us the customer is the crucial component in any company's value chain and it is easy to let the cart go before the value creating horse.

*"We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been."*¹⁰

Partners

As the Global Focus strategy has reached its three year anniversary we have been engaging with investors who are interested in partnering with us. Indeed that is what we are looking for—partners who understand our philosophy, share our beliefs and want to develop an iterative and two-way relationship with us for many years. With this in mind we wanted to finish by highlighting the kind of investor that the Global Focus strategy should appeal to.

We believe the Global Focus strategy is suited for partners that:

1. Approach equity investing as business owners investing in companies.
2. View free cash flow as the core conception of value for any business.
3. Understand that there are a limited number of outstanding investment opportunities at any one time.
4. Maintain a very long-term time horizon.
5. Appreciate that risk reduction is knowing what you own and staying within your circle of competence.
6. View volatility as opportunity and not risk.

If you fit the above profile, or know someone that does, then please get in touch—we welcome all like-minded investors who are interested in partnering with us on the Global Focus strategy journey. Our email address is globalfocus@brownadvisory.com. Many thanks for reading our annual letter on the strategy's three year anniversary, the ongoing support and good conversation. We look forward to updating you on our progress in the coming years.

Best,

Bertie Thomson



Bertie Thomson, CFA
Portfolio Manager



Mick Dillon, CFA
Portfolio Manager

⁹ Amazingly we spoke to an executive of an airline that has been insolvent on more than one occasion and his company had actively dedicated precious resource to disintermediating Icarus.

¹⁰ George Merck II, speech to the Medical College of Virginia, December 1950.

Disclosures

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.

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Total strategy assets include accounts that are excluded from the composite. These assets include (1) single strategy assets of balanced accounts, (2) accounts that do not meet the composite minimum market value requirement and (3) accounts with restrictive guidelines.

Factset® is a registered trademark of Factset Research Systems, Inc.

FTSE Russell® calculates a series of net-of-tax total return indexes where withholding tax is deducted at either the maximum rate (the rate that applies if a non-resident investor is unable to take advantage of any double taxation treaties), or the rates that apply in the presence of applicable double taxation treaties. The latter depend on the type of investors as well as on their tax residence. FTSE Russell® currently calculates standard net-of-tax indexes for two such investor types: a US Regulated Investment Company (RIC) and a UK pension fund. The FTSE All-World Developed Index is a market-capitalization weighted index representing the performance of large and mid cap companies in Developed markets. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization. FTSE® is a trade mark of LSEG and is used by FTSE under licence.

The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries. With 1,632 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries.

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 $(\text{EBIT} + \text{Operating Leases Due 1-Yr}) \times (1 - \text{Cash Tax Rate})$ and IC (invested capital) is $\text{Total Debt} + \text{Total Equity} + \text{Total Unfunded Pension} + (\text{Operating Leases Due 1-Yr} \times 8) - \text{Excess Cash}$. ROIC calculations presented use LFY (last fiscal year) and exclude financial services.

ROIIC is calculated by dividing a company's constant rate incremental operating income (plus depreciation and amortization) by the constant rate-weighted average-adjusted investment capital. The ratio is expressed as a percentage.

The internal rate of return (IRR) is a measure of an investment's rate of return. The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. It is also called the discounted cash flow rate of return.

FCF yield is a measure of financial performance calculated as operating cash flow minus capital expenditures. FCF yield calculations presented use LFY and exclude financial services.

Free cash flow represents the cash a company generates after cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital.

Enterprise Value to Free Cash Flow (FCF/EV) compares the total valuation of the company with its ability to generate cash flow. It is the inverse of the Free Cash Flow Yield.

Global Focus Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (\$USD Millions)*	GIPS Firm Assets (\$USD Millions)*
2019	42.7	42.1	27.3	N/A	N/A	Five or fewer	N/A	12	42,426
2018	3.4	2.9	-9.1	N/A	N/A	Five or fewer	N/A	4	30,529
YTD 2017**	3.7	3.5	8.1	N/A	N/A	Five or fewer	N/A	2	33,155

**Return is for period September 1, 2017 through December 31, 2017.

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, 2019. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

- *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 Global Focus Composite (the Composite) includes all discretionary portfolios invested in the Global Focus Strategy. The Global Focus Strategy seeks to invest in a small number of quality franchises the manager believes have the ability to materially improve their cash flows over the long-term. In choosing securities, the strategy seeks to invest in companies with one or more of the following characteristics: an entrenched competitive position, durable economic moats, and/or is priced at a discount to intrinsic value due to investor misconceptions. The minimum account market value required for inclusion in the Composite is \$500,000.
- The Composite creation date is June 1, 2020. The Composite inception date is September 1, 2017.
- The benchmark is the FTSE All-World Developed Index. This index is a market-capitalization weighted index representing the performance of large and mid cap companies in developed markets. 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.
- The composite dispersion presented is an equal-weighted standard deviation of portfolio 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: 1.00% on all assets with a minimum account size of \$50 million. 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, 2017, December 31, 2018 and December 31, 2019 because 36 month returns for the Composite were not available (N/A).
- 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, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
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