

# Global Leaders Strategy

Investment Letter | June 2021

*The Global Leaders Strategy invests in a concentrated portfolio of market-leading companies from across the globe. We believe that companies that combine exceptional outcomes for their customers with strong leadership can generate high and sustainable returns on invested capital (ROIC) which can lead to outstanding shareholder returns.*



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## Software is Eating the World

The Global Leaders strategy passed its sixth anniversary on 1<sup>st</sup> May and we would like to thank our co-investors and all those who have supported, challenged and helped us along the journey so far. It's a marathon not a sprint and like all those on a life-long odyssey we rely on a good team around us both professional and personal. We are very grateful to you all.

One of the joys of investing is the freedom and ongoing necessity to revisit and retest our most fundamental economic principles—we believe that having an expansive and open mentality in the mould of Carol Dweck's<sup>1</sup> growth mindset is one of the hallmarks of a good investor. Renowned technology entrepreneur and investor Marc Andreessen regularly talks of his belief in “strong opinions, loosely held”<sup>2</sup> and our need to humbly update our views when the world changes. One of the core tenets of our team is our annual offsite where we test, improve or reaffirm our strategy to make sure it is as relevant today as when we formed and embedded each step into our process. In that spirit in our last quarterly letter we questioned: “what is invested capital in an asset light world?” Global Leaders has a 20% return on invested capital (ROIC) hurdle and the strategy has averaged 25% since inception. Mathematically, if you own a 25% return on capital business which is fully reinvesting for five years that business will return over 200% on the initial capital you invested in that short time—a powerful economic engine indeed! But what if times have changed and we are measuring invested capital inaccurately?

The Mosaic web browser—which was co-designed by Andreessen and released in 1993—popularised access to the World Wide Web as the first widely used graphical web browser integrating pictures and text and turbo-charged the development of today's physical asset-light internet economy. He then co-founded Netscape which, at only 16 months old and still loss making, IPOed in August 1995 opening many investors' eyes to the potential of the internet. It arguably unleashed enormous venture capital investment into internet concept companies culminating in the dot.com boom later that decade. Over the intervening 25 years we have witnessed an economic transition from physical capital dominating balance sheets to a majority in intangible assets as seen in Exhibit 1 below. In Andreessen's words from 2011 “software is eating the world”.<sup>3</sup> However, the accounting treatment of research and development (R&D) in the U.S. has not changed materially since 1974. There is a major mismatch between accrual accounting developed for manufacturing-based industrializing economies and the micro-economics of today's knowledge-based businesses. Accountants mistakenly insist on expensing intangible investments into software R&D in the income statement rather than capitalising economically viable ones as durable internally-generated intangible assets on the balance sheet, the opposite of physical investments into machinery. The contrasting accounting treatment of tangible vs. intangible investments distorts our calculation of invested capital. Ultimately as investors we are practising micro-economists, not accountants, and if the lingua franca of investing is supposed to be accounting then we best make sure it is accurately describing what is going on economically.

*Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for... 40 years, you're not going to make much different than 6% return – even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.*

Charlie Munger<sup>4</sup>

<sup>1</sup> Dr. Carol S. Dweck, *Mindset: How You Can Fulfill Your Potential*

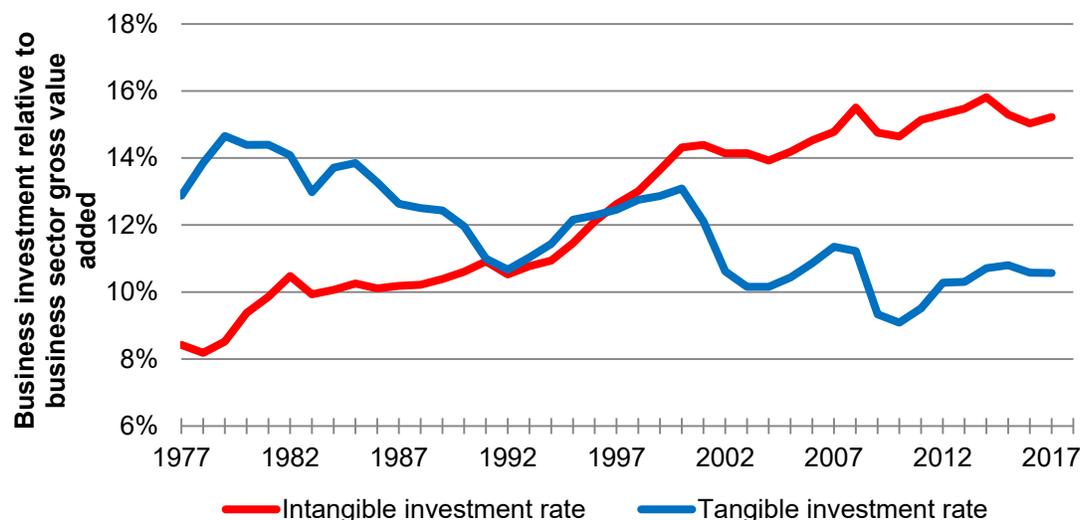
<sup>2</sup> <https://tim.blog/2018/01/01/the-tim-ferriss-show-transcripts-marc-andreessen/>

<sup>3</sup> <https://www.wsj.com/articles/SB10001424053111903480904576512250915629460>

<sup>4</sup> Charlie Munger: *A Lesson on Elementary, Worldly Wisdom As It Relates To Investment Management & Business*. USC Business School, 1994

## Exhibit 1: U.S. Investment Rates, 1977 to 2017

Tangible vs. Intangible

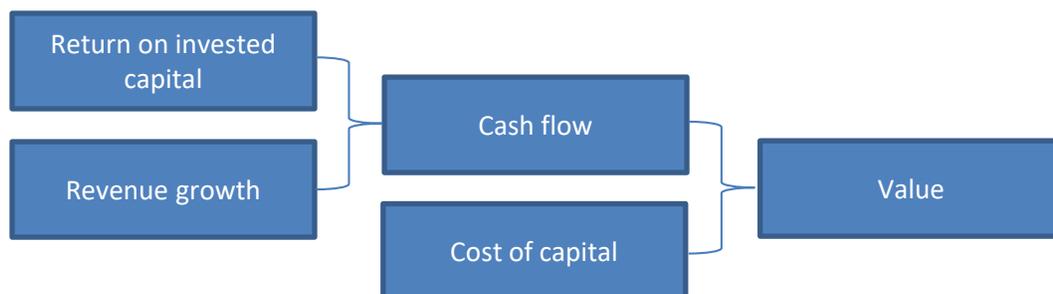


Source: Corrado & Hulten (2010) "How Do You Measure a 'Technological Revolution?'" American Economic Review, vol. 100, no. 2 (May) pp. 99–104 updated to 2017 at INTAN-Invest <http://www.intaninvest.net/charts-and-tables/>

The primary goal of RoIC as a financial metric is to calculate the internal rate of return (IRR) of our companies' operating assets. RoIC is the link from sales to cash flow and therefore value, as demonstrated in the chart below. Are some of our "asset-light" companies really as high RoIC as accountants would have us believe? When Microsoft buys servers or equipment for its Azure datacentres accountants correctly capitalise these physical assets onto the balance sheet and depreciate them over their multi-year useful life. Yet when Microsoft spends on R&D to develop software and intellectual capital with lifetime value lasting many years to sell alongside Azure it is all expensed immediately as incurred. In correctly following U.S. GAAP as it stands today, this contradicting treatment means Microsoft has an artificially high *accounting RoIC* due to undercapitalising its internal investment into developing intangible economic assets. In general capitalising intangible investments leads to a lower but more accurate *economic RoIC* as a clearer picture of the company's IRR. Thoughtful Investing requires us to think clearly about the IRR of the assets in which our management teams invest; the price we pay for those assets' future value creation drives our investing IRR. There are really only two things that we think matter in business and investing (1) serving your customers' needs and (2) how much cash you need to put in and how much cash you ultimately get back. Cash is and always will be our core concept of value and *economic RoIC* is a guide to our expected return on investment on the way.

## Exhibit 2: Return on Invested Capital Drives Cash flow and Value

Growth and ROIC Drive Value



Source: McKinsey & Company (Keller, Goedhart & Wessels), *Valuation: Measuring and Managing the Value of Companies* 7th edition

## The link between invested capital and value creation

We believe that a sustainably high RoIC is the primary numerical expression of a great business. RoIC defines capital productivity, and as investors we provide the capital. Very simply, if a company demonstrates the ability to generate high cash flow over a long time on the capital invested in the business, chances are that it operates in a favourable industry environment where its economics are protected by enduring competitive advantages. When calculating RoIC in order to better understand the IRR of the operating assets in which we invest, there is subjectivity in classifying the constituents of both invested capital and operating profit depending on categorization of pension liabilities, operating leases, deferred tax and of course the capitalization and useful life of intangible assets. Whilst estimating the operating profit for a business from reported earnings can be tricky, understanding what goes into invested capital is often much murkier. Investments create future benefits; expenses do not. As noted, a company can invest in tangible factories and machines or intangible brands or patents. All are assets with multi-year lives that create future cash flow. Invested capital from an accounting perspective understates the investment needed to build a loyal customer base, develop a drug patent or to generate powerful network effects. All three create a moat to protect a business' economics and generate long-term returns. A further complication comes from the idea that goodwill and acquired intangibles have no bearing on future cash flows and should be considered as "sunk costs" and therefore excluded. We will attempt to address our thinking around each of these.

## What is the meaning of invested capital in a "capital-light world"?

Tangible assets (ie. those that exist in the physical world that we can touch) are the easiest to determine. Our guiding principle here is to stay as close to reported numbers or GAAP<sup>5</sup> figures (as opposed to adjusted numbers provided by management) assuming the accounting is prudent and to make conservative adjustments in our capital calculations where required. Historically, these adjustments have been around hidden liabilities that support the growth of the business, such as leases which a business could not operate without or under-funded pensions that are often not accurately reflected in either operating profit or invested capital.

The majority of our internal discussions around invested capital are devoted to intangible assets. This is unsurprising given the divergence between public market valuations and book values is greater than ever and a big driver of that delta is intangibles<sup>6</sup>. In their book *The End of Accounting and the Path Forward for Investors and Managers*, authors Baruch Lev and Feng Gu argue that as we have transitioned from the industrial age to the information age, the major drivers of value have shifted from property, machinery and inventories to patents, brands, information technology and human resources. Thus, many new and emerging businesses such as online marketplaces or software appear to be relatively "capital light" whilst making significant investments through their income statement to support long-term growth. Often they are loss making whilst they are building their moat. Similar to splitting capital expenditure (capex) into on-going spending required to maintain a business' assets and capex to drive future growth, operating expenses like R&D can also be separated into those to support ongoing operations and investments for growth. The growth investment part of advertising or R&D should be capitalized as it provides long-standing benefits for the business. Academics now believe the "*principle value creator for digital companies [is] increasing return to scale on intangible investments.*"<sup>7</sup> We view these intangible reinvestments as vital to protect and extend a company's economic moats. TSMC, a company we have owned since inception, has achieved dominance in leading edge semiconductor production through significant investments in both expensed R&D that widened their technology moat and capital expenditures into their cutting edge manufacturing plants.

In practice, however, we face many difficulties when trying to capitalize internally generated intangible assets based on GAAP disclosures today. How much of Google's R&D is necessary to maintain its monopoly in search? How much is being wasted on Project Loon? How do we split between growth R&D vs. maintenance R&D? What is the useful life of R&D investments? There are no time-tested standard schedules to estimate useful intangible asset life as there are for physical plant. Furthermore the productivity and efficiency of R&D varies between firms and across industries. Nonetheless, as is true with useful life appraisals for property, plant and equipment (PP&E), although subjective, an estimate is better than none at all. After all, in their recent annual reports both Microsoft and Google just extended the estimate for their cloud datacentre servers by 33%, a huge jump in the useful life of a physical asset. Accounting decisions on how expenses are classified are subject to estimation and management discretion, in short, someone's opinion. We tread carefully when adding an additional layer of assumptions. While useful for our understanding they are just estimates of the economic RoIC and a company's IRR. In the end it is the free cash flow coming out to investors as seen back in Exhibit 2 that is the long-term driver of value and over time this remains unchanged irrespective of the accounting treatment.

<sup>5</sup> Generally Accepted Accounting Principles as per U.S. GAAP or IFRS

<sup>6</sup> Baruch Lev & Anup Srivastava (2019), *Explaining the Recent Failure of Value Investing* and Feifei Li (2021), *Intangibles: The Missing Ingredient in Book Value*. Both published on SSRN.

<sup>7</sup> "Why Financial Statements Don't Work for Digital Companies" by Govindarajan, Rajgopal, and Srivastava. Harvard Business Review, February 2018 <https://hbr.org/2018/02/why-financial-statements-dont-work-for-digital-companies>

Goodwill and acquired identifiable intangibles like customer lists, patents or software add another wrinkle to thinking about invested capital. Organic spending on R&D for patent development is expensed as incurred so internally generated intangible assets do not appear on the balance sheet. However acquired intangible assets such as goodwill are immediately recognized in full. The current accounting convention for goodwill (this has changed over the past 25 years) is to record it on the balance sheet and test periodically for impairment. Goodwill is the excess price paid for purchasing a company above the fair market value of its net assets. It reflects the cost of acquiring a product or capability externally as opposed to developing it in-house. Thus a strategy of buying via M&A versus building by organic internal investment leads to very different balance sheets and recorded invested capital for the same intangible assets.

For companies that have made a large historical acquisition and are unlikely or unable to make similarly large deals in the future, goodwill can be considered a historical sunk cost. It makes economic sense to analyse invested capital and RoIC excluding goodwill as the best estimate of IRR. For serial acquirers where acquisitions will be a core driver of future growth then goodwill should be included in the capital base. Estee Lauder, another long-term holding, regularly acquires smaller brands and scales them up as it builds a portfolio of brands to address an increasingly fragmented customer base. The expenditure to acquire these brands is analogous to the ongoing investments into innovation, research and advertising which it makes into maintaining Clinique or would be needed to develop a new brand internally. These acquisitions are a substitute to internal investment. We include the goodwill and acquired intangibles associated with these deals as part of Estee's invested capital base. For Estee Lauder we estimate RoIC including goodwill of 21%<sup>8</sup> over the last 5 years.

Our goal in this analysis is clarity and comparability to get a better understanding of the company's operating IRR. RoIC including goodwill approximates the return on the current invested capital base. We think RoIC excluding goodwill and acquired intangibles is the best indicator of future returns on organically reinvested capital, hence why we want a high reinvestment rate. Both are important to future value creation and what we should pay. Continuing value creation is driven by reinvestment—both organic and acquired—and the subsequent return on the newly invested capital. All three components—return on organic reinvestment, return on M&A investments and the return on the starting capital base—blend to determine the company's ongoing operating IRR.

## Implications for Global Leaders

We seek to invest in companies with a demonstrably high RoIC today that have multiple barriers to rivals stealing away their precious customers, thus protecting our companies' operating IRR and our long-term investing IRR. As with valuation, there is more art than science in getting these invested capital assumptions approximately accurate. This is another of investing's joys, very little is black and white. However we believe one thing is clear: the price to book ratio is of less use in valuing companies in a digital world. Ultimately our goal is to understand the return on the operating assets in which we invest (physical and intangible) to help inform our view of what we should pay which will help determine our investing IRR. As Charlie Munger noted above, the longer we own our investment the closer our investing IRR gets to the underlying company's IRR of its assets. But we need to think clearly about what that IRR really is. While Global Leaders' *accounting RoIC* has averaged 25%<sup>9</sup> for the portfolio since inception six years ago, our investment return has been a little over 14% per annum (vs. a benchmark of approx. 10%). There are two explanations for this: (i) our economic RoIC is lower than the accounting 25% once we capitalize intangible investments into the invested capital base and (ii) six years is too short a time frame for the IRRs to converge.

*"It is generally a good rule for an investor, having settled on the class of security he prefers [...] to buy only the best within that category."*

John Maynard Keynes

It is important for us to distinguish between accounting norms and the economic reality of our businesses. Our aim is to use fundamental analysis and valuation tools which reflect a company's true economics as accurately as possible. We believe this allows us to better understand, both in qualitative and quantitative terms, the key value drivers and what future value creation might look like. The Global Leaders strategy aims to own best-in-class businesses which generate a high return on their core businesses and also have the opportunity to invest capital where they can continue to earn high returns. We believe this is the best formula for compounding over time.

## The Psychology of Money

In our investment book club last year we read Morgan Housel's *The Psychology of Money*. As our co-investors know we believe psychology and behavioural economics are two of the few ways we can get an edge. It's why we pay a coach to help

<sup>8</sup> Brown Advisory calculations.

<sup>9</sup> Brown Advisory calculations for the period 1<sup>st</sup> May 2015 to 30<sup>th</sup> April 2021

us. Mick and Ali Bayler from Brown Advisory recently interviewed Morgan ([link](#)) and one of the topics they discussed was from Morgan's 2017 blog called "Expiring vs. Long-Term Knowledge" ([link](#)). We have written about this concept before as time is our most valuable resource, so maximizing our return on time and energy is paramount. How we invest our time is critical as we know that very little of what we read today will matter in a years' time. Clearing from our minds the flotsam and jetsam of expiring newsflow or the flashing lights of daily share price gyrations to enable us to think long-term is a recurring theme and challenge for us.

One way we think about time productivity is to take Morgan's concept around knowledge accumulation of "Expiring vs. Long-Term Knowledge" on one axis with the addition of "being pro-active vs. reactive" as a second axis to create a 2x2 matrix. This simple framework helps clarify prioritisation of activities such as email or reading the Financial Times versus annual reports or books on psychology to what will benefit us most as investors in the long run. Maximising our return on time and energy is so important to research and personal productivity, particularly in sustaining our intensity over long periods, and this has been a terrific tool for us. We hope this framework might serve you well too.

We have thoroughly enjoyed putting pen to paper in our regular letters over the last six years and we hope that you have enjoyed reading them. The whole Global Leaders team would like to thank you for your interest and support of our strategy. We hope that difficulties faced during COVID-19 lockdowns are starting to ease and that you and your families stay safe and healthy.

**Mick, Bertie and the Global Leaders Team**

# Disclosures, Terms and Definitions

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.

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.

The **FTSE All-World Index** is a market-capitalisation weighted index representing the performance of the large and mid-cap stocks from the FTSE Global Equity Index Series and covers 90-95% of the investable market capitalisation. The index covers Developed and Emerging markets and is suitable as the basis for investment products, such as funds, derivatives and exchange-traded funds. FTSE® is a trade mark of LSEG and is used by FTSE under licence. An investor cannot invest directly into an index.

The **MSCI ACWI® Index** captures large and mid-cap representation across 23 Developed Markets (DM) countries and 23 Emerging Markets (EM) countries. With 2,758 constituents, the index covers approximately 85% of the global investable equity opportunity set. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries. An investor cannot invest directly into an index.

The **S&P 500® Index** represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include market capitalization, financial viability, liquidity, public float, sector representation and corporate structure. An index constituent must also be considered a U.S. company. Standard & Poor's, S&P, and S&P 500® are trademarks/service marks of MSCI and Standard & Poor's. An investor cannot invest directly into an index.

The **Russell Global Large-Cap Net Index** offers investors access to the large-cap segment of the entire global equity universe. The Russell Global Large Cap index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to accurately reflect the changes in the market over time. All Russell indices mentioned above are trademarks/service marks of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company. An investor cannot invest directly into an index.

**ROIC** is a measure of determining a company's financial performance. It is calculated as  $\text{NOPAT/IC}$ ; where NOPAT (net operating profit after tax) is  $(\text{EBIT} + \text{Operating Leases Due 1-Yr}) * (1 - \text{Cash Tax Rate})$  and IC (invested capital) is  $\text{Total Debt} + \text{Total Equity} + \text{Total Unfunded Pension} + (\text{Operating Leases Due 1-Yr} * 8) - \text{Excess Cash}$ . ROIC calculations presented use LFY (last fiscal year) and exclude financial services.

**Free cash flow** (FCF) 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.

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

**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.

**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.

**IRR** (internal rate of return) is a measurement used to estimate the profitability of a project or investment. It is used when companies need to decide between different ways of using their money. The IRR of the investment is determined by anticipating the profit a project will produce in the future and finding out its value today.

**Net debt-to-EBITDA** (earnings before interest depreciation and amortization) ratio is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The calculation presented excludes financial services.

**Discounted Cash Flow** (DCF) is a valuation method used to estimate the value of an investment based on its expected future cash flows.

**Weighted Average Cost of Capital** (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets, commonly referred to as the firm's cost of capital.

The **terminal growth** rate is a percentage that represents the expected growth rate of a firm's free cash flow.

# Global Leaders Strategy 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	35.1	34.2	26.5	11.6	11.2	Five or fewer	N/A	731	42,426
2018	-2.2	-2.8	-9.6	11.0	10.5	Five or fewer	N/A	303	30,529
2017	35.1	34.0	24.0	N/A	N/A	Five or fewer	N/A	77	33,155
2016	-0.6	-1.4	8.0	N/A	N/A	Five or fewer	N/A	38	30,417
2015**	1.2	0.7	-4.4	N/A	N/A	Five or fewer	N/A	24	43,746

\*\*Return is for period May 1, 2015 through December 31, 2015

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 Leaders Composite (the Composite) aims to achieve capital appreciation by investing primarily in global equities. The strategy will invest in equity securities of companies that the portfolio manager believes are leaders within their industry or country, as demonstrated by an ability to deliver high relative return on invested capital over time. The minimum account market value required for Composite inclusion is \$1.5 million.
- The Composite creation date is August 26, 2015. The Composite inception date is May 1, 2015.
- The benchmark is the FTSE All-World Net Index. This index is a free float market cap weighted index representing the performance of the large & mid cap stocks from the FTSE Global Equity Index Series. The index covers Developed & Emerging Markets. Base Value 100 as at December 31, 1986. "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.
- As of January 1, 2019, the Composite benchmark was changed from Russell Global Large-Cap Net Index to the FTSE All-World Net Index. The change was applied retroactively from the Composite inception date. The Russell Global Large-Cap Net Index was decommissioned as of December 31, 2018 and is no longer published.
- Composite dispersion 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: 0.80% on the first \$50 million; 0.55% on the next \$50 million; 0.45% on the next \$50 million; and 0.40% on the balance over \$150 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
- 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, 2015, December 31, 2016 and December 31, 2017 because 36 month returns for the Composite were not available (N/A) and the Composite did not exist.
- 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 is not indicative of future results.
- This piece is provided for informational purposes only and should not be construed as a research report, 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, including any mutual fund managed by Brown Advisory.