

Global Leaders Strategy

REPORTING ON SUSTAINABILITY OUTCOMES

This report reflects our investment philosophy and our commitment to report on the sustainability outcomes of our strategies.

LETTER OF INTRODUCTION FROM THE PORTFOLIO MANAGERS



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Dear Fellow Investors,

We have long argued that sustainability for an investor should incorporate every sense of the word. It is part of the virtuous circle of capitalism; mostly it just makes good business sense. In our [October 2020 investment letter](#) we warned about the ESG Genie seeming to magic up goodness and endless streams of investment wishes. Inevitably, the warm and fuzzy narrative has been juxtaposed with a harsher reality. Over the past year, the investment community has been appraising sustainable investing principles more diligently. To us, scrutiny is a necessary step for progress. Our guiding principle is continuous improvement, captured in our annual offsite motto: “we can always get better.” This growth mindset is essential, and we hope critical examination will strengthen the validity of sustainable investing yet identify areas which need improvement.

We once learnt that there is a half-life to facts.¹ This is not intuitive. What is considered true today is often superseded or refuted in a few years as new knowledge emerges.² Scientometrics³ predicts systematic patterns of new ideas updating old beliefs which applies aptly to sustainable investing. The role of nuclear energy and natural gas in sustainable portfolios is evolving.⁴ As intermittent renewables supply a larger portion of the energy mix this increases our need for flexible backup power sources, necessitating more natural gas on standby. Our job as investors is to update our beliefs based on new information—both good and bad. We hope that recent challenges to sustainable investing will serve to strengthen good ideas and displace outdated facts.

In this spirit we read *Material World* about the history and production of vital commodities for electrification such as lithium and copper.⁵ Paradoxically an electrified future is contingent on increasing carbon intensive mining today. The world is complex, and investing is nuanced—as highlighted by these inconvenient truths of tackling climate change—so we must ask awkward questions. Thus, we cannot outsource our research—be it fundamental to investment banks nor ESG ratings to MSCI or ISS. In a subjective topic there is no external arbiter of the “truth”.

Our focus is on sustainability initiatives which generate material cashflow today and meaningfully differentiate the company from rivals. We are wary of 2050 commitments that are immaterial or irrelevant to today’s core business drivers. Our gold standard of “meaningful and material” is rare but underpins our Sustainable Business Advantage (SBA) framework whereby the SBA compounds a relative competitive advantage. In other words, we believe the SBA will be durable and create value over our 5-10 year investing horizon. In short, we want a direct connection between the sustainability narrative and our investment’s financial performance.

We are incredibly optimistic about the change our investments can bring and detail case studies within. The direction of travel is clear: more of our companies have published targets, more are SBTi approved, and our carbon emissions remain exceptionally low versus the benchmark.⁶ We hope this report provides insight and will no doubt prompt some discerning questions! We look forward to engaging over the coming year.

Mick and Bertie

¹ *The Half-Life of Facts: Why Everything We Know Has an Expiration Date* by Samuel Arbesman.

² Half-lives vary wildly—some sectors change rapidly (social sciences & medicine) vs physical sciences and mathematics which can take centuries. In contrast to chemical half-lives, a fact’s half-life duration can change due to innovation.

³ The study of the evolution of knowledge.

⁴ While the Global Leaders Strategy does not have exclusions in place, please note that the UCITS Fund seeks to exclude companies whose primary business activities are directly tied to conventional exploration, extraction, production, manufacturing or refining coal, oil or gas; companies whose primary business activities are directly tied to producing electricity derived from fossil fuels; companies with significant assets directly invested in conventional fossil fuel reserves.

⁵ *Material World: A Substantial Story of Our Past and Future* by Ed Conway.

⁶ Source: MSCI ESG Manager. Data reflects portfolio holdings as of Dec. 31, 2023. Portfolio information is based on a Brown Advisory Global Leaders representative account. Benchmark is the MSCI ACWI Index. Please see the end of this report for important disclosures.



SUSTAINABLE INVESTING AT BROWN ADVISORY

As active investors, our portfolio managers have the independence to apply their own experience, point of view and expertise to generate long-term performance for clients.

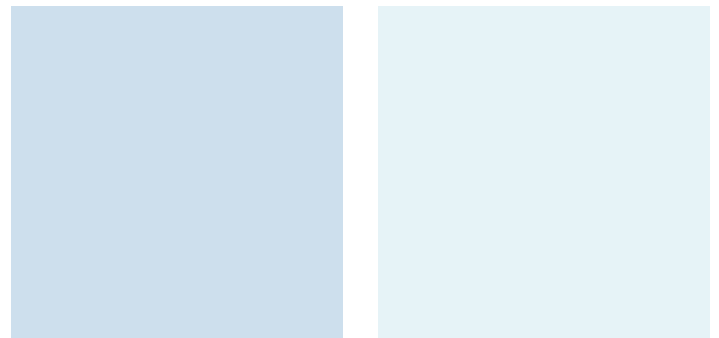
While each strategy is distinctive, across all our strategies financial performance is the core objective. Deep research and analysis is undertaken to provide a holistic understanding of the risks and opportunities associated with any given investment. By combining fundamental and sustainable investment research, we aim to uncover, assess and identify sustainable drivers that have a meaningful influence on financial performance.

In this context, the term sustainable reflects two things—firstly the durability of an investment and secondly, sustainable development more broadly. It is with that reflection in mind that our investment professionals look for sustainable drivers in every investment, those that improve financial outcomes, or competitive advantages through sustainability-related activities. These might include responsibly managing natural resources, facilitating the transition to a low-carbon economy, or contributing to equitable and inclusive societies.

Investment philosophy

As a concentrated global investment strategy, we set very high standards for our investments. We have a business owner mindset and as such seek to carefully manage our investors' exposure to risk that can affect their investment. We invest in companies, in any sector or country, that we believe deliver superior customer outcomes and are capable of compounding excess returns over time. Integrating sustainable investment research is integral to our investment strategy and helps us to find companies that align with our investment philosophy. We follow an in-house research process to identify high quality businesses who are using sustainability to drive competitive advantages and that also manage sustainability related risks effectively over time. In seeking to identify companies using sustainability to drive their competitive advantages, we specifically look for companies with Sustainable Business Advantages (SBA).

Our experience, and our research, helps to uncover the differences between companies that are trying to deliver exceptional outcomes for their customers and those that are not. We believe that by investing in the former, with a close eye on valuation, we can identify under-appreciated value, and build a portfolio that delivers both attractive returns and positive contributions to society.

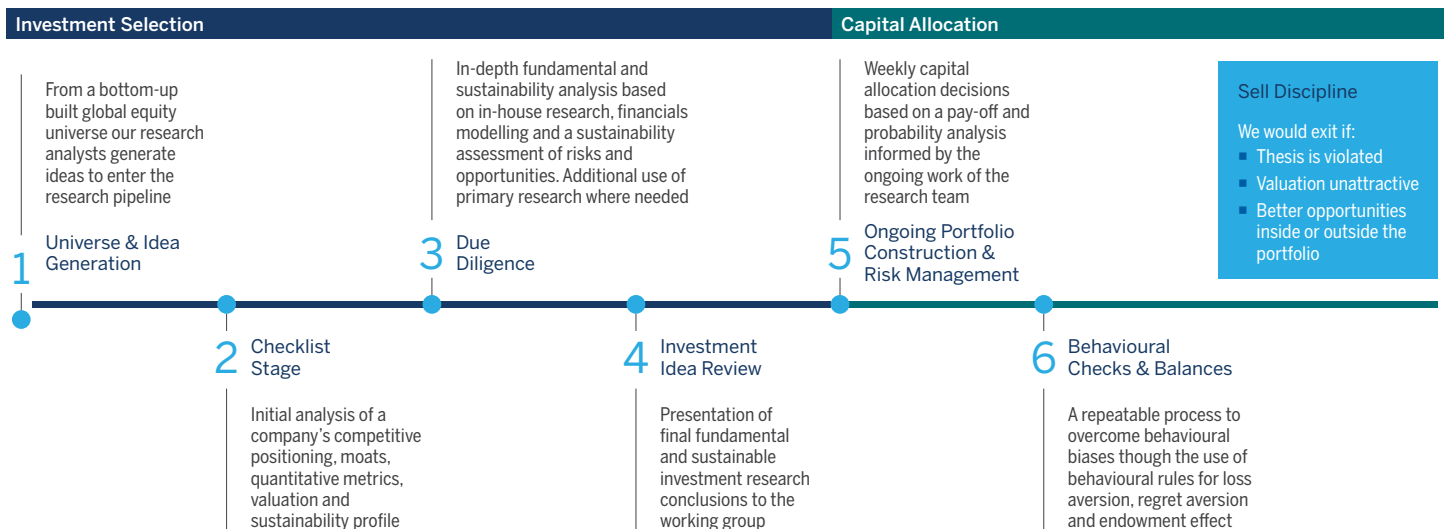


Investment process

We believe that sustainability is inseparable from business opportunities and risks. Consequently, we integrate the views of our sustainable investment research analysts at every step of the investment process.

Our investment process embraces two distinct parts: the investment-selection process and the capital allocation process. In managing the Global Leaders Strategy, we apply a four-step investment-selection process intended to produce a portfolio truly representative of our highest conviction investments from around the world.

INTEGRATION OF SUSTAINABLE INVESTMENT RESEARCH



Source: Brown Advisory as of Dec 31, 2023.

Sustainable Business Advantage (SBA)

A growing number of fundamentally strong companies are using sustainable drivers to add value for customer and shareholders. We look at a wide variety of quantitative and qualitative information to evaluate these drivers and upon careful analysis, we seek to understand their potential to stimulate tangible, long-term business results.

A company is considered to have SBA if its sustainability strategies or attributes have the potential to drive the following:

Revenue Growth:

Companies that are producing a product or service that is solving for a sustainability challenge.

Cost Improvement:

Companies working to reduce their own energy and resource usage. By boosting their own operational efficiencies, companies can reduce costs and improve margins, in other words, they can do more with less.

Enhanced Franchise Value:

Improving the overall value of the business franchise through increasing customer loyalty, elevating the brand reputation, and improving employee engagement, retention and recruitment. This is generally achieved by companies building sustainable product lines (e.g. ethical, healthy or organic) or are known as leaders in sustainability within their industry.

SBA's in action

ADOBE

SUSTAINABLE DRIVERS:

Revenue Growth, Enhanced Franchise Value

BUSINESS SCENARIO:

Adobe is a leader in digital transformation. The company drives sustainability through the way they design and deliver their products, enabling customers to be more sustainable. Adobe Document, Creative, and Experience Clouds all help customers eliminate physical workflows and reduce resource consumption. Document Cloud is particularly compelling from a sustainability perspective. Adobe documents created, signed, shared, and stored in Adobe Document Cloud drive a 90% cost savings and a 95% reduction in environmental impact compared to paper-based processes.¹ This is meaningful in context of the more than 400 billion PDF documents opened in Adobe products and more than 8 billion electronic signature transactions processed through Adobe Document Cloud in 2023 alone.¹ To quantify the environmental advantages, every 1 million Adobe Sign transactions save 105 million liters of water, 31,000 trees, and the equivalent of taking 2,300 cars off the road for a year—plus reducing costs by more than \$7.2 million.¹ Adobe's customer outcomes are underpinned by the company's commitment to 100% renewable energy by 2025 and net zero emissions by 2050.² Additionally, we believe that Adobe holds a leadership position in Artificial Intelligence (AI) governance. While the industry is early in developing best practices for AI governance, we believe Adobe sets the bar in their "Responsible AI Principles." Notably, engineers developing any AI-powered features submit an AI Ethics Impact Assessment, and AI-powered features with the highest potential ethical impact are reviewed by a diverse cross-functional AI Ethics Review Board. We believe Adobe's approach leads to enhanced franchise value as the company builds trust contributing to customer retention and growth, addresses the evolving regulatory landscape around AI, and sets a higher bar for peers. All of which, we believe, contributes to revenue growth in the long term.

LONDON STOCK EXCHANGE GROUP

SUSTAINABLE DRIVERS:

Revenue Growth

BUSINESS SCENARIO:

London Stock Exchange Group (LSEG) is a leading financial markets infrastructure and data provider that we believe is well-positioned to drive sustainable economic growth by focusing on sustainability-related data, analytics, and indices through FTSE Russell, Refinitiv and their broader sustainability capabilities across asset classes. For example, FTSE Russell, offers a wide range of sustainability and climate indices that help investors track the performance of companies with strong sustainability practices, encouraging investment in businesses committed to sustainability and responsible practices. With the acquisition of Refinitiv in 2021, LSEG has also established itself as having one of the industry's most comprehensive sustainability data bases. LSEG works across the market to help drive transparency and support the shift to a net-zero economy, which we believe will serve as a competitive advantage given the increase in market demand for sustainability solutions. We think LSEG is at a pivotal moment in its almost 350 year history, during which it can expand its moats and increase cross-selling across its solutions which, we believe, can expand its sustainability offering and deepen sustainability integration into customers workflows.



¹ Adobe Product Sustainability Overview - Powering Digital Experiences with Sustainability.

² Adobe Corporate Social Responsibility Report 2023.

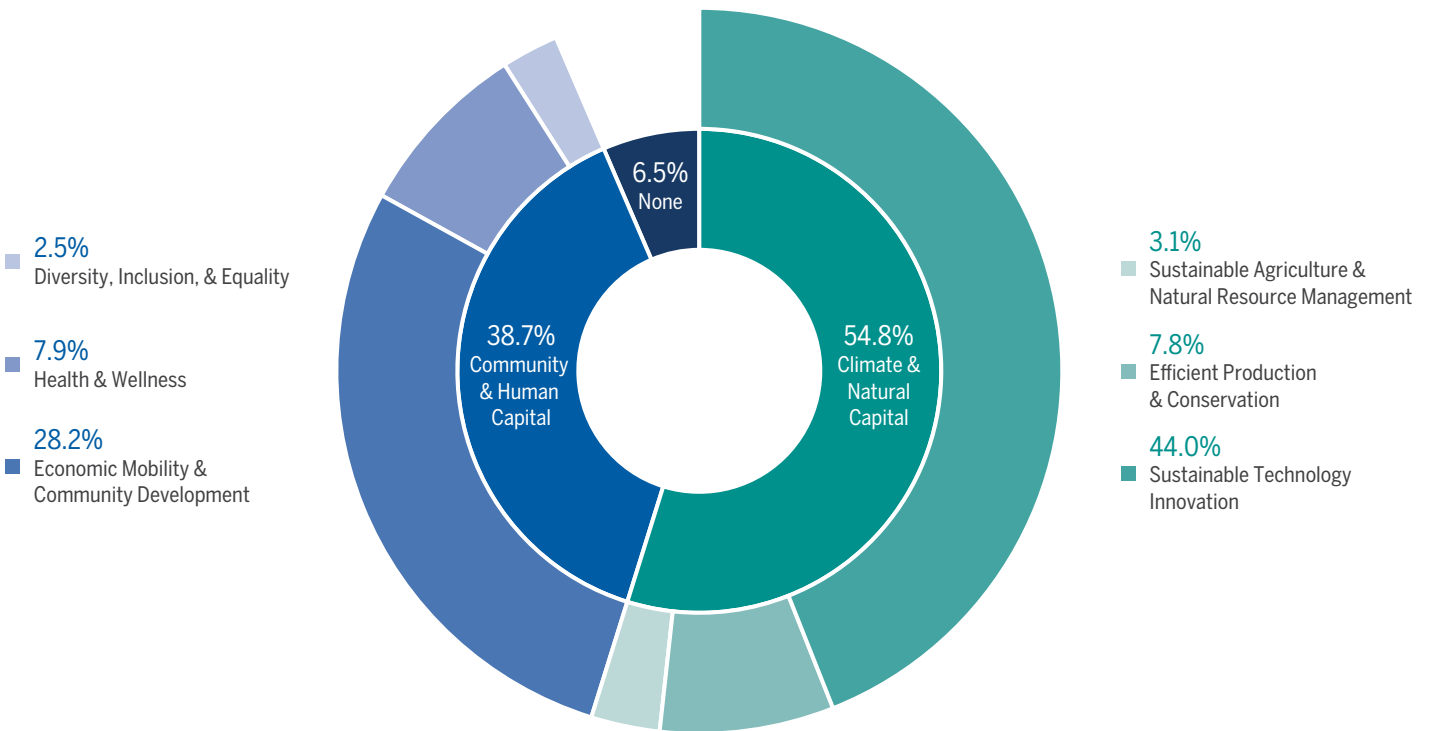
The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not 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 the sustainable investment philosophy of the strategy, and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the last page for important disclosures.

SUSTAINABILITY INDICATORS

Our investment approach is rooted in deep, bottom-up research that seeks to identify high quality companies with sustainable business advantages at compelling valuations. This approach has led to what we believe is a portfolio of companies with attractive potential returns that may also create positive sustainability outcomes. While we invest solely to drive performance, our focus on sustainable research within our due diligence process results in strategy investments associated with a range of positive outcomes generated by our companies.

Diversification by themes

We do not target any particular theme or combination of themes as part of our investment thesis. That said, for the purposes of assessment and to recognize the positive outcomes associated with the activities of companies in which we invest, we have a straightforward, internally created framework (see below) to illustrate the variety of challenges and opportunities our portfolios address.



Source: Brown Advisory analysis. Numbers may not total to 100% due to rounding. Impact theme information excludes cash, is based on a Brown Advisory Global Leaders representative account as of Dec. 31, 2023.

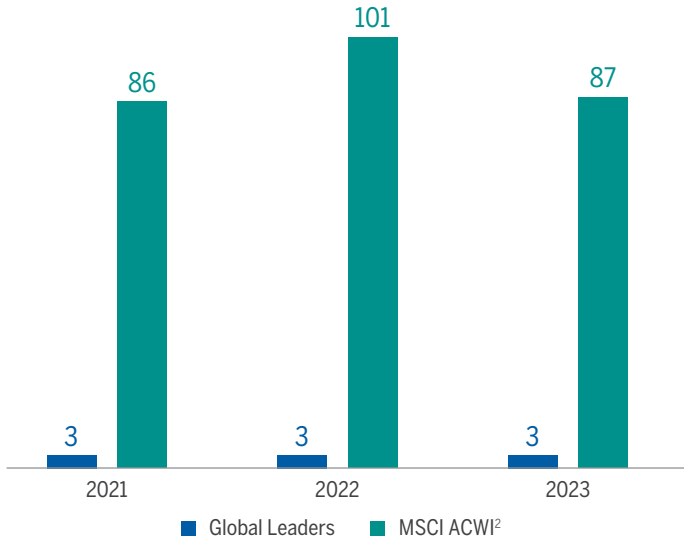
A CLIENT-FOCUSED THEMATIC FRAMEWORK

The themes presented in the Brown Advisory framework above, Climate & Natural Capital and Community & Human Capital, have been developed with the sole purpose of explaining the potential sustainability outcomes of our investments. We work closely with our clients to help them translate our themes against their own tools or other internationally recognised frameworks, such as the U.N. Sustainable Development Goals (SDGs). Whilst we do not invest to achieve these goals, some clients have found it useful to show how our themes map against the SDGs to understand a strategy's investment outcomes.

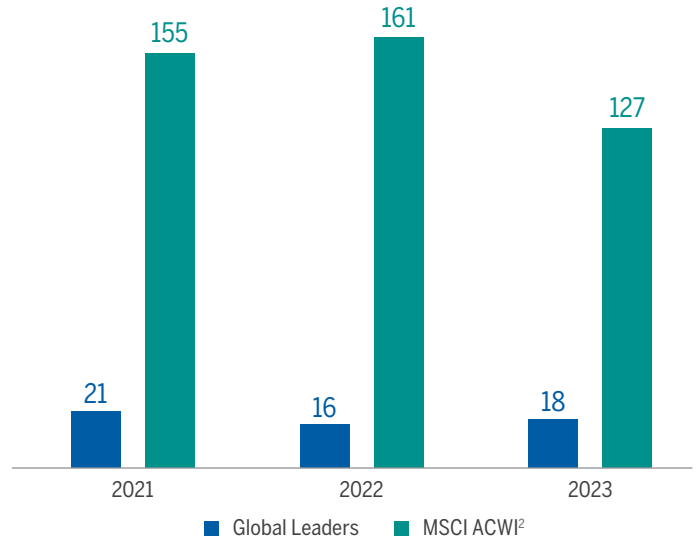
Carbon emissions data

We believe our investments generate a wide variety of positive outcomes. Some of these can be measured in the aggregate, for example, the portfolio's overall carbon emissions profile which has been significantly lower than the benchmark.

CARBON EMISSIONS PER \$1M



WEIGHTED AVERAGE CARBON INTENSITY¹



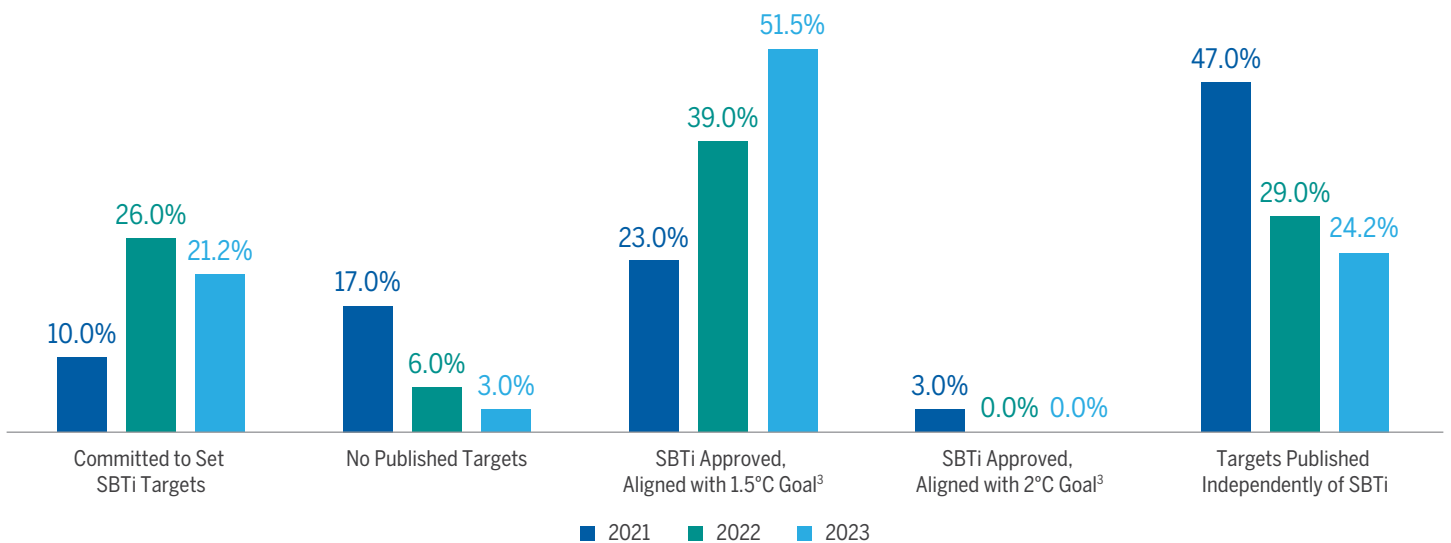
¹ Tons CO₂e/\$M revenue of portfolio holdings, adjusted based on relative weighting of each holding. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the end of this report for important disclosures and a complete list of terms and index definitions.

² The benchmark was the FTSE from inception until 2022 when the Strategy switched to the MSCI ACWI.

Source: MSCI ESG Manager.

Science based targets progress

To ensure climate risks are managed over time, we are focused on the adoption of SBTs across our investments. Many of our investments publish targets in line with recommendations from the Science-Based Target Initiative (SBTi) although some independently set targets from this initiative. We do not require that SBTs be validated by the SBTi specifically, but we do encourage some form of third-party verification and annual reporting of progress toward targets.



³ Note that the SBTi itself is evolving alongside the climate change crisis; as time passes it is asking companies to consider more aggressive reductions in the hope of further restraining long-term global warming. Companies in this portfolio that have not set carbon targets are largely low-emission businesses by their nature, but we nonetheless seek to engage with all companies to understand their decarbonization strategies and to seek improved transparency and disclosure.

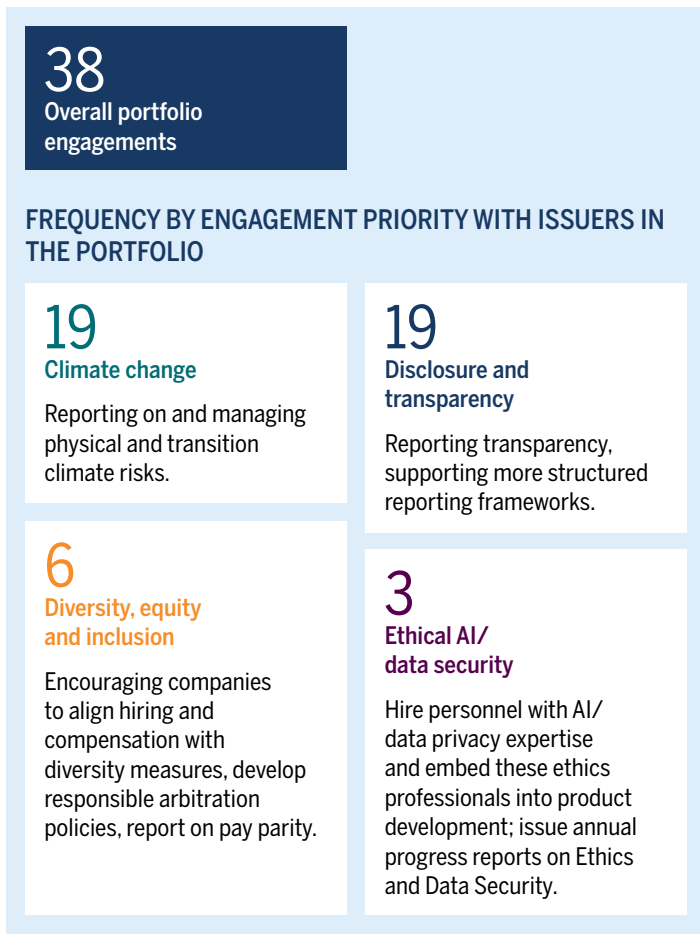
Source: MSCI ESG Manager. Data reflects portfolio holdings as of Dec. 31, 2023. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the end of this report for important disclosures.

ENGAGEMENT

Engagement is a foundational part of our investment research and ongoing monitoring of the companies in our portfolio. As active investors, we speak with a company’s management team, its customers, its critics, and experts on material issues affecting that business. These insights help to challenge our thinking and refine our conviction, which we believe is critical to delivering investment performance for clients.

Our engagement activity by the numbers

As long-term investors, we prefer to collaborate with the companies we hold to encourage positive change over time. We believe this constructive approach is more likely to yield incremental progress. That said, if we feel management is unable or unwilling to make progress on issues we deem to be significant, or if we feel our investment thesis has been violated, we may eliminate our position in order to protect long-term value for our clients.



Source: Brown Advisory. Portfolio information based on a Brown Advisory Global Leaders representative account. We do not engage with every company or issuer. We only engage when we believe engagement will be material to our investment decision-making. 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.

Notable engagements in 2023



DEUTSCHE BOERSE

PRIORITY:

Governance

ACTIVITY:

We engaged with Deutsche Boerse to discuss their capital allocation strategies over their approach to capital allocation,

particularly concerning mergers and acquisitions (M&A) and return on invested capital (ROIC). Recognising the importance of these areas in the financial market infrastructure sector, our interactions intensified following Deutsche Boerse's announcement of the SimCorp acquisition. Our goal was to ensure a disciplined approach to M&A to prevent the erosion of ROIC and shareholder value—a trend often observed in the market. Through our dialogue we sought for Deutsche Boerse's strategic decisions to reflect a more structured and transparent capital allocation policy. Our engagement efforts included multiple in-person and conference call meetings with various members of the leadership team in both the UK and Germany. We more formally communicated with Deutsche Boerse's leadership through letters and meetings with the CEO, CFO, and Chairman, advocating for specific alterations in management compensation to align with our views and followed up with in-person discussions.

OUTCOME:

We were pleased to see much of our thoughts and advice reflected in their latest 3 year strategy presented at their latest Capital Markets Day. The added focus on capital allocation and the various options available to management as part of their tool kit was very encouraging to hear, and in many parts reflected the dialogue we had with the company. The company's improved communication on capital allocation strategies and the revised Compass 26 plan were particularly encouraging signs of progress. Additionally, we engaged with the Chairman on refining remuneration policies, emphasizing the importance of ROIC and proposing a more targeted approach to sustainability in compensation. This engagement has reinforced Deutsche Boerse's governance and sustainability positioning in our view, and we anticipate further constructive discussions to monitor their ongoing commitment to prudent capital allocation and ROIC.



HDFC BANK LTD

PRIORITY:

Climate Change

ACTIVITY:

We engaged with HDFC to discuss the bank's environmental strategy, with emphasis on financed emissions and

the establishment of science-based targets. Through continued engagement with the bank's sustainability team (and through participation in the Emerging Markets Investor Alliance (EMIA) Financials Working Group), we maintained a persistent dialogue to encourage progress on HDFC's environmental performance, including sustainable lending practices.

OUTCOME:

HDFC demonstrated an openness to our and other investors' feedback, and we believe they have been proactive in integrating advanced environmental practices and disclosures. The bank, known for its leadership in retail lending, now aims to increase its transition lending with a proportion (yet to be defined) of its current lending portfolio deemed sustainable. Although HDFC has committed to carbon neutrality by 2032¹, it is distinct from a net-zero pledge. However, they are progressing towards adopting science-based and scope 3 targets. We plan to continue monitoring HDFC's progress on these issues and engaging through our EMIA Working Group participation as well as our direct communications with the company.



¹ [HDFC Press Release, 3 June 2021: HDFC Commits To Becoming Carbon Neutral by 2031-32.](#)

Source: Brown Advisory Research. Engagement case studies are based on engagements related to the Brown Advisory Global Leaders strategy during 2023. We do not engage with every issuer. We only engage when we believe engagement will be material to our investment decision-making. Sectors identified for each company are based on the GICS sector classification system. 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 the sustainable investment philosophy of the strategy, and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the end of this report for important disclosures.

PROXY VOTING

We believe that Proxy voting is an important part of executing our responsibilities to our clients. It is a nuanced exercise often requiring deep due diligence. As such, we employ a case-by-case approach, guided by our Proxy Voting Policy. This approach often results in our support for proposals that our evaluation shows will likely have a positive financial effect on shareholder value and those that encourage company action on what we believe are material risks or opportunities. When possible, we also seek to leverage our proxy voting choices as a way to reinforce our engagement activities with companies.

Proxy Voting 2023

In 2023, there were 35 instructed meetings which included a total of 498 votable proposals.

VOTES WITH



VOTES AGAINST



NOTABLE PROXY VOTES IN 2023

Company Name	PT Bank Rakyat	Atlas Copco AB	Unilever PLC
Date of vote	13 March 2023	27 April 2023	3 May 2023
Proponent	Management	Management	Management
Proposal theme	Board Composition	Director Election	Executive Compensation
Proposal objective	Ratify Changes in the Composition of the Board	Re-elect Peter Wallenberg Jr as Director	Advisory Vote to Ratify Named Executive Officers' Compensation
Vote instruction	Against	For	Against
Rationale	Voted against proposed change based on insufficient available information; we communicated our rationale to management ahead of our vote. Our rationale was rooted in the fact that we seek greater shareholder transparency around corporate governance changes.	A vote for this proposal was warranted as we felt that the presence of the Wallenberg Family or representatives of their investment vehicle, Investor AB, would be beneficial given their multi-generational ownership position and long-term investment horizon of the company. We have engaged with the company on multiple occasions and met with family representatives to corroborate their thinking on the company and organic investment into the business.	We identified that the incoming CEO's salary had been set higher than his predecessor's and at a significantly higher level than his salary at his prior company, Royal FrieslandCampina, and indeed above UK market peers. We did not feel the company had provided compelling justification for this remuneration package and consequently voted against this proposal and against the management recommendation.

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Sustainable investment considerations are one of multiple informational inputs into the investment process, alongside data on traditional financial factors, and so are not the sole driver of decision-making. Sustainable investment analysis may not be performed for every holding in the strategy. Sustainable investment 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 be desirable based on our analysis of sustainable investment related risks and opportunities, but investors may differ in their views. 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 excluded from other funds that focus on sustainable investment risks. Security selection will be impacted by the combined focus on sustainable investment research assessments and fundamental research assessments including the return forecasts. The strategy incorporates data from third parties in its research process but does not make investment decisions based on third-party data alone.

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. 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 Strategy intends to invest in companies with measurable sustainable 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 MSCI ACWI® (All Country World Index)**, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and midcap stocks across developed and emerging markets. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries. Factset® is a registered trademark of Factset Research Systems, Inc. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)", "GICS" and "GICS Direct" are service marks of Standard & Poor's and MSCI. "GICS" is a trademark of MSCI and Standard & Poor's. 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. $ROIC = NOPAT / IC$. $NOPAT = EBIT + Amortization\ of\ acquired\ intangibles - Cash\ tax\ paid$. $IC = Total\ Debt + Total\ Equity + Total\ unfunded\ pension\ liabilities - Excess\ Cash$.