

Global Leaders Strategy



INVESTMENT LETTER | JANUARY 2025

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.



Mick Dillon, CFA
Portfolio Manager



Bertie Thomson, CFA
Portfolio Manager

Pressure

Dear Fellow Investors,

We often quip that investing is a blend of mathematics and psychology with the latter most important when under pressure. High pressure situations occur regularly in professional sport. Most tournaments culminate with knock-out finals as they are specifically designed to end in a fingernail biting crescendo. One momentous example seen in 2024 was at the Euro2024 football championship quarterfinals when after 120 minutes of physically exhausting running, the undecided matches then switched to high-stakes penalty shootouts.¹ For long suffering England fans, it is then that the nightmares really began. When Euro2024 started, England had the worst penalty shootout record in the history of the tournament with an 80% loss ratio. In recent years England were eliminated by Italy in the Euro2012 quarterfinal shootout and lost the previous final at Euro2020 on spot kicks to Italy (again – the horror!) in an excruciating finale. Alarming, in the 2024 quarterfinals England went to penalties once again. The psychology of the penalty shoot-out has been studied intensively since its introduction into the Euros tournament in 1976. A fascinating book called *Pressure* by Geir Jordet gets into full statistic nerd mode, analyzing every angle of successful penalty shootouts to “*observe what happens to performance in the presence of acute stress and anxiety.*”² The key differences? Psychology, process, and preparation. The parallels with investing are plain to see.

Our work with an external coaching team, to analyze errors of both omission and commission, is underpinned by a belief that we can always get better. Similarly, to the professional footballers above, we come under various loads of psychological pressure. Our corollary to a penalty shoot is closest to a drawdown review.³ We plan for it to *not* happen (it is certainly not our base case!), the outcome can be close to binary, and we have to believe in the process and the team. Preparation and process help deal

¹ 90 minutes of regular time followed by another 30 minutes of extra time to allow a winning goal to be scored.

² *Pressure: Lessons from the Psychology of the Penalty Shootout* by Geir Jordet

³ If an investment falls either -20% from our initial purchase or relatively underperforms our MSCI ACWI benchmark by -20% over the prior 12 months, we have to buy more or exit.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

with this stress in order to swing the probability of successful decision-making outcomes in our investors' favor. This is why we work with a coach, as does every successful sports team on the planet. Investing is a team sport too. For England players and fans alike, the intensity and stress of another penalty shootout was immense. Preparation for this eventuality and a detailed process to taking penalties under thoughtful manager Gareth Southgate paid off with only their second spot-kick win in six attempts at the Euros and back-to-back trips to the tournament final.⁴

In this update we will discuss our performance, four new companies which we invested into during 2024, lessons from one of our two exits and how we used our annual offsite to refine our processes with the aim of delivering future outperformance.⁵ From a performance objective perspective, we aim for double-digit absolute returns, annualized, over a five-year time horizon.⁶ This goal of 10+% per annum returns, embedded in our discount rate, will double our investor's money every seven years (if maintained). This is our minimum valuation hurdle when investing in any new business. Whilst we look at this target on a long-term view, we have seen the portfolio deliver above this in USD terms once again in 2024. For 2024 the UCITS C-share USD returned 14.7% net of fees vs. the MSCI All Country World Net Total Return (ACWI) benchmark return of 17.5%. Since inception, Global Leaders UCITS C-share USD has delivered annualized performance of 11.4% per annum net after fees slightly above our double-digit IRR investment hurdles. Since inception the MSCI ACWI benchmark has returned 8.9% per annum.

The main driver of our 2024 *relative* underperformance was not being invested in NVIDIA. Since ChatGPT introduced the power of generative artificial intelligence to the world on 30 November 2022, the Global Leaders Strategy has outperformed its benchmark despite being underweight the USA and specifically underweight the "Magnificent Seven".⁷ 2024 underperformance of -2.81% versus our benchmark was almost precisely matched by the individual outperformance of NVIDIA, which we did not own. On balance the rest of the portfolio is doing just fine albeit with areas of strength (AI) and weakness (EM financials) discussed below.

We wrote about the concentration within global indexes last year and this continued with only 29% of companies within the ACWI Index at the start of 2024 outperforming this benchmark over the year.⁸ Our capital allocation added value in 2024 as five of our top ten largest weights over the year were also in our top ten percentage winners. Conversely, within our ten worst performers, seven were also amongst our smallest ten weights. Capital allocation is critical when index hit rates are below 50%.

"AI is just whatever doesn't work yet – when it works, it's just software" – Ben Evans.⁹

We look at the opportunity set for investing in Artificial Intelligence along four layers of the AI tech stack which we previously discussed in more detail in our August 2023 investment letter ([read here](#)). The framework disaggregates investments into:

1. End user applications, typically differentiated by and powered by proprietary data.

⁴ Which agonizingly they lost! Nonetheless under Southgate England is the only European team to reach the quarterfinals of the last four major tournaments (World Cup 2018, 2022 & Euro 2020, 2024). Next stop, to win one...

⁵ We split our process into two distinct parts: investment selection (finding ideas) and capital allocation (sizing).

⁶ This target performance is net of all fees and expenses. This objective does not guarantee future results and involves risks, including potential loss of capital.

⁷ The "Magnificent Seven" is a collection of Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA & Tesla attributed to Michael Hartnett of Bank of America.

⁸ Data source is Factset, as of 12/31/2024.

⁹ <https://www.ben-evans.com/presentations>

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. Performance is sourced from FactSet as of 12/31/2024. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

2. Enabling technologies such as Large Language Models, Transformers & other software.
3. Cloud Service Providers to deliver the data center hardware at hyperscale.
4. Technical infrastructure for data centers such as semis, servers, power & networking.

Within Global Leaders we have investments which are involved in all four layers. Our investments are starting to see meaningful enterprise AI use cases, especially in productivity and efficiency enhancing tools, such as co-pilots for software coding and consumer service chatbots. According to Google CEO Sundar Pichai, Google now has c.25% of new software code accepted into production which is written/suggested by AI.¹⁰ Booking Holdings has seen net promoter scores go up and customers service levels improve due to deployment of AI chatbot agents. Revenue enhancing use cases are less prevalent but if employee productivity goes up or cost to serve goes down, then AI is starting to deliver on its promise within our portfolio. Microsoft is on track to deliver \$10bn annualized run-rate AI revenues in its hyperscale cloud business. Another revenue enhancing use case is performance marketing on social media. After years of shunning spend on social media due to lack of return on their advertising spending, Booking Holdings has seen the performance of social advertising improve rapidly as Meta has rolled out AI-powered recommendation engine tools for advertisers over the past year; its advertising budget is quickly reallocating to a previously untapped channel with impressive top-line results.

We are focused on errors of commission, since avoiding losers within the portfolio and therefore the avoidance of permanent loss of capital is crucial in a concentrated strategy. It means we have a bias to rejection and discussed this in detail in our *Darwinian Investing* letter in 2024 ([read here](#)). The high-quality hurdles in our strategy mean that we reject a lot of companies either due to business model quality or valuation. For NVIDIA, our error of omission is due to the latter. We believe that current valuation does not align with a double-digit, annualized 5-year return on our base case estimates, nonetheless we are following the company closely. NVIDIA has certainly delivered an exceptional customer outcome! We are invested in three companies within the technical infrastructure layer of the AI tech stack where NVIDIA sits. We remain very excited by our investment in Marvell Technology which makes custom AI accelerator semiconductors for Amazon's AWS cloud and Microsoft's Azure data centers, both should ramp significantly in 2025. We are also invested in Taiwan Semiconductor Manufacturing Company (TSM) and ASML in the fourth layer of the AI tech stack above.

NVIDIA aside, the biggest drag within the portfolio throughout 2024 was the underperformance of our Emerging Market Financials investments which coincided with the election of President Trump. The parallels with late 2016 when this last happened are startling. In 2017 many of them went on to be terrific investments – we shall see how 2025 turns out but we see healthy IRRs in all of them today. Within emerging markets financials, we own four investments with dominant market positions and strong, structural growth as financial products permeate these economies: HDFC Bank, Bank Rakyat, AIA Group and B3. All four triggered our drawdown review process over the past year. We have added to all four holdings as we believe that there is neither increased competition nor does regulation permanently change the economics of their business model. These are consistently the main sources of risk for our companies. We take a long-term view on the current share price weakness and believe it is exactly this

¹⁰ <https://www.youtube.com/watch?v=OxswBmp3iFU>, minute 22.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

time-based arbitrage and the focus on downside protection that differentiates us and drives our long-term performance. On a company-by-company basis:

- **HDFC Bank** has shown robust fundamental business drivers, but the shares have relatively underperformed since its merger with former parent HDFC Ltd. This merger enhances HDFC Bank's long-run business opportunities, particularly mortgages, in the Indian market but comes with short-term sub-optimal funding which we expect to unwind over the next couple of years. With an enhanced competitive position, we feel it unlikely this remains an issue over time. HDFC Bank has also shown good downside protection historically when the credit cycle turns, and the bank's defensive lending practices allow it to outperform peers. Impressively, management has expanded lending at the right time historically too. We believe these characteristics remain intact.
- **Bank Rakyat** is navigating a number of challenges, some related to the macro environment impact into their customer base, as well as one idiosyncratic to their micro loan book. The company saw an uptick to 3% in non-performing-loans (NPLs) for its micro loan book in 2024. The underwriting quality at Bank Rakyat has typically seen NPLs in their micro book range between 2-3% (so only 1 in 33, to 1 in 50 borrowers fails to repay). The NPL uptick has centered in new borrower cohorts since Covid (both government subsidized and commercial microloans). An important risk mitigator is that these loans are collateralized and have state-backed insurance, which is a practice Bank Rakyat has increased over recent years. Additionally, recovery rates on microloan NPLs are typically over 50%. We are watching this issue closely but with micro loan duration typically 2-4 years we currently believe it is a short-term issue.
- **AIA Group** has delivered solid fundamentals throughout 2024 and gained licenses to expand into new provinces in China. This is core to our long-term thesis. Developing business in new provinces takes a couple of years to mature but underpins long-term growth within AIA's core regions of China and Hong Kong. We appreciate global investors' worries around China but continue to see opportunities in AIA.
- **B3** is the sole exchange in Brazil and, as such, has a very unique and high-quality business model albeit within a highly variable macroeconomy. Cash equity trading flows have been depressed as interest rates have climbed rapidly in Brazil's macro environment, but derivatives have been countering this to provide stability to the top line. We do expect a return to growth for equity volumes and crucially we view any competitive risks as quite low. We have a very conservative 15% cost of capital when investing in Brazil to account for some of these risks, yet we still see a solid mid-teens IRR. Management clearly sees this potential too and have announced share buybacks which appear highly accretive.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

During 2024 while the market was focused on Generative AI related technology companies or GLP1 agonists in healthcare, we found long-term double-digit IRRs in differentiated companies such as AutoZone, Zoetis, Rentokil, and Illumina. We will discuss all of them in detail below but used car parts, animal health, pest control and gene sequencing could all be great long-term compounding areas. These new investments were typically funded by trimming areas of the portfolio that have seen IRRs come down on a relative basis such as technology, where we reduced positions such as TSM and Microsoft. In 2024, we exited Estee Lauder and GE Vernova after General Electric split into GE Vernova and GE Aerospace. We did a full review of GE Vernova upon split but decided to exit.

We highlighted in our 2023 annual review that we saw health care becoming attractively valued on the Global Leaders valuation framework and were hoping to deploy capital in this sector. One year later we have increased our exposure to health care to the highest level in over eight years. We are attracted to high-quality health care investments as we believe that their non-deferrable revenues provide downside protection. Nonetheless, we were underweight health care entering 2024 as many otherwise attractive companies did not pass our valuation hurdle. In 2024 we found two opportunities for investments in the health care sector after years of not liking the valuations. Many companies within health care have dubious customer and/or patient outcomes, however, the provision of leading science to the biotech industry to enable personalized medicine through gene sequencing at Illumina and Zoetis's cures to previously untreatable conditions in animals have enormous benefits to societal welfare. We also spent significant time on our holdings in Edwards Lifesciences and Roche with the result of adding to those investments as well.

We added one new investment in the fourth quarter, U.S. life science & diagnostics company **Illumina**, a global market leader in genetic and genomic analysis with a market share of over 80%. Through its innovative technologies, Illumina has been driving down gene sequencing costs over the past 20 years from the c.\$3.0bn it cost to originally sequence the first human genome in 2003 to \$200 today, enabling better and timelier diagnostics for customers and significant benefits for the health care system.¹¹ Illumina's customer base has evolved from predominantly research focused institutions to now include nearly half of revenues from clinical customers looking for gene sequencing technology to identify disease susceptibility, predisposition, and identification in structurally growing "personalized medicine" end markets. With most global sequencing done on Illumina's machines, the company drives long-term profitability through scale and leadership in intellectual property. The strong integration of its solutions in clients' laboratory workflows means that switching costs are high. Any switch from Illumina machines changes lab workflows adding process complexity and impairs comparability of prior test results necessitating extra analysis to interpret new output data. Consumables, such as sequencing kits for specific genomes, are the main revenue driver with over 70% revenue contribution. We expect strong consumables growth as customers transition to Illumina's newest technology platform with better workflow management (e.g., room temperature chemistry vs previous frozen-storage supply chain), higher test volume productivity and improved cost-effectiveness. We expect high single-digit 5-year revenue growth combined with better operational management to deliver low teens FCF growth.

¹¹ <https://www.genome.gov/about-genomics/educational-resources/fact-sheets/human-genome-project>

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

Zoetis is the global leader in animal health serving both companion animals and livestock through medicines, vaccines, and diagnostics products. Zoetis spun out of U.S. pharma company Pfizer in 2013, having operated as its animal health division since 1952. It is the largest pure-play animal health company with significant scale in R&D, leading to innovation in drug discovery, which has allowed it to take market share from smaller competitors. It spends more per year on R&D than the next three players combined. Animal health is in many aspects more attractive than the wider pharma industry given the smaller number of competitors, lighter regulation for drug development (no human trials required) and less threat from generics. Zoetis has established itself as the highest quality marketer to the veterinarians and livestock producers, where quality and reliability of a drug are key competitive advantages, increasing switching costs, as it solves problems for vets and pet owners alike.

Autozone is the leading replacement automotive parts retailer and distributor in the US, servicing both the Do-it-Yourself (DIY) and Do-it-for-Me (DIFM) segments of the used car market, a market that is structurally growing as the fleet expands, with a high degree of visibility into future demand of the 6+ year used car cohort, which is AutoZone's core target market. AutoZone is expanding into the faster growing DIFM market, as well as into Brazil and Mexico. The company's superior customer outcome is immediate parts availability and the meaningful de-risking of the balance sheets of smaller garages which do not need to hold inventory themselves. It offers a differentiated service for customers based on local availability of parts ("in stock, in market"), quick turnaround speed and advice (including free specialty tool loans so DIY customers can complete necessary maintenance at lower cost but generating enduring loyalty). All this has historically proven difficult to replicate in an e-commerce setting. While there are a small number of large companies operating in this growing market, further consolidation of smaller competitors is expected as leading retailers' scale (depth and breadth of inventory) and network effects (proximity to customers in immediate need of repair) constitute strong moats. One of the impressive characteristics of the company's capital allocation is that it has delivered exceptional capital discipline and deployed its cash flow into share buybacks which has reduced the company's share count by about 85% since 2000.

Rentokil is the global leader in pest control and became the largest North American pest control company in both the commercial and residential settings after its acquisition of Terminix in 2022. Pest control is highly non-deferrable in commercial markets with multi-year contracts and underpinned by mid-single digit structural growth. It is much more transactional in residential settings ("get that rat out of here") with annual contracts at best. It is the industry's barriers to scale that allow Rentokil, and close rival Rollins, to grow and consolidate the market. Bolt-on acquisitions improve technicians' route density which reinforce scale economies. In US commercial markets the top three players account for over 80% of revenues, within US residential pest control the top four players are over 70% of industry sales. Terminix merger integration has not gone smoothly so far, which translated into a profit warning during Q3 2024, allowing us to significantly build out our initial position during 4Q24. The integration will likely take time as management combines branches to optimize their network, whilst investing in much-needed back-end technology. On a 5-year view, we expect the merger to strengthen Rentokil's route density and scale, to deliver margin and Return on Invested Capital (RoIC) improvement with a mid-teens base case IRR.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

Our exit of **Estée Lauder** has been a topic at both our coaching sessions and our annual offsite during 2024. There are numerous lessons but here's one from Jordet's book: *"performing under pressure is not about feeling good; it is about doing what is right and smart regardless of how one feels, and particularly when one feels bad."*¹² We undertook our first penalty shootout (drawdown review) in May 2023 and misdiagnosed Estee's issues as temporary demand in nature, so we bought more. Whenever we buy on a drawdown review, we define quantifiable metrics (kill triggers) specific to each investment, to flag if our thesis is off track. These "kill triggers" are typically assigned with a 12-month time horizon in mind. When we subsequently needed to take a second spot-kick after our kill triggers were activated, we exited due to evidence of more permanent supply-side loss of share to rivals in multiple markets. It didn't feel good, but Estee's share price fell materially more after our exit. You must trust the process.

Our annual offsite is a period of uninterrupted time outside the office where we focus on continuous improvement to reflect, learn, and make marginal adjustments to our processes which can cumulatively lead to significant advancements. This year's offsite revealed key reflections and learnings about economic moats and business models. In a session called "Moat Inc." we split into teams to unpack business models that only had one moat. We only invest in companies that we deem to have more than one moat so we wanted to explore where we might be missing out. It is worth noting that one of the core beliefs of our investment philosophy is that economic moats are linked to creating consumer surplus, as many of the business features that create value for customers also create barriers to entry. Our moat framework receives significant attention during each company's due diligence as it helps identify fade-resistant businesses that mitigate supply side risks. Moat Inc. led to insights and tweaks to our framework including separating out unique data assets within intangible assets, nuancing for multiple independent moats within an overarching category (e.g., a patent and unique data within intangible assets) and formalizing removal of brand as moat category. Brand can be a powerful relative competitive advantage, but it does not prevent competitors from entering an industry.

As we look ahead, we believe we will see more opportunities to employ capital to new quality investments in 2025. Across the portfolio we see strong fundamental performance across almost all areas, for example: semiconductors, enterprise software, cloud, payments, developed market financial market infrastructure, travel and entertainment exposed companies or the aerospace sector. Within our industrial investments we have witnessed resilience of demand despite exposure to a slowing residential and commercial real estate markets in North America or pockets of weakening industrial end markets. We expect our investments to take market share in weakening environments and prosper on the other side.

Our portfolio enters 2025 with 36 investments across 13 countries with revenues well diversified across the globe.¹³ We own global leaders across multiple industries with a blended RoIC of 21.4%, that is more than two times the benchmark average (8.8%) and a median trailing three-year annualized sales growth of 8.0%, 1.9% higher than the benchmark too. They are predominantly asset light and have proven their ability to share cost inflation with customers over time. For this we have short cut FCF yield valuation of 3.5% (vs. the benchmark of 4.0%, so c.15% more expensive), and our underlying estimate of IRRs remains

¹² Quote from Geir Jordet's book *Pressure: Lessons from the Psychology of the Penalty Shootout*

¹³ Number of investments excludes currencies.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

double digits on a five-year view.¹⁴ We believe that we have a terrifically interesting portfolio and its why we invest alongside you.

Since the inception of the Global Leaders Strategy, we have looked for high-quality companies with superior customer outcomes, that we believe are able to pass on price and generate high levels of recurring revenue while requiring low financial leverage. This approach helps us focus on long-term compounding whilst offering downside capital preservation. It is this time arbitrage paired with a thoughtful, repeatable process that we see as the core driver of value generation within our Global Leaders Strategy. Thanks for your ongoing interest in our progress.

Mick, Bertie, and the Global Leaders Team

¹⁴ Data source is Factset, as of December 31st, 2024.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

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.

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.

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.

Bloomberg is a trademark and service mark of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. Any other trademarks or service marks are property of their respective owners. The MSCI ACWI® Index (All Country World Index), MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across developed and emerging markets. As of May 2022, it covers more than 2,933 constituents across eleven sectors and approximately 85% of the free float-adjusted market capitalization in each market. 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 $(EBIT + \text{Operating Leases Due 1-Yr}) \times (1 - \text{Cash Tax Rate})$ 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.

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.

Annualized Return is the geometric average amount of money earned by an investment each year over a given time period. It is calculated as a geometric average to show what an investor would earn over a period of time if the annual return was compounded.

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.

Free Cash Flow Yield is a measure of financial performance calculated as operating cash flow minus capital expenditures. FCF yield calculations presented use NTM and exclude Banks and Insurance companies.

Sources: Unless otherwise stated, sources are as of the most recent company reports available at the time of publication. All financial statistics and ratios are calculated using information from Factset as of the report date unless otherwise noted.

Past performance is not indicative of future results. The portfolio information is based on a Brown Advisory Global Leaders representative account and is provided as Supplemental Information. Please see the end of the letter for important disclosures and a GIPS Report. Sectors are based on the Global Industry Classification Standard (GICS®) 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 views expressed in the commentary and do not represent all of the securities purchased, sold, or recommended for advisory clients. Please see the end of the letter for important disclosures.

Brown Advisory 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) *
2023	27.0	26.0	22.2	17.7	16.3	Five or Fewer	N/A	4,730	81,325
2022	-19.0	-19.7	-18.4	20.6	19.9	Five or fewer	N/A	3,680	57,575
2021	17.6	16.7	18.5	17.2	16.8	Five or fewer	N/A	4,368	79,715
2020	21.0	20.0	16.3	18.1	18.1	Five or fewer	N/A	2,428	59,683
2019	35.1	34.0	26.6	11.6	11.2	Five or fewer	N/A	731	42,426
2018	-2.2	-2.8	-9.4	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	7.9	N/A	N/A	Five or fewer	N/A	38	30,417
2015**	1.2	0.7	-7.3	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, 2023. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. *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.

1. 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.
2. 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 Global Leaders Strategy ("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 strategies 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.
3. The Composite creation date is August 26, 2015. The Composite inception date is May 1, 2015.
4. The benchmark is the MSCI ACWI Net Index. The MSCI ACWI Net Index captures large and mid-cap representation across Developed Markets (DM) and Emerging Markets (EM) countries. 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. Benchmark returns are not covered by the report of the independent verifiers.
5. As of September 1, 2022, the Composite benchmark was changed from the FTSE All-World Net Index to the MSCI ACWI Net Index. The change was applied retroactively from the Composite inception date. The Advisor determined that MSCI indices are more widely used for global products, and thereby provide more relevant data to shareholders and prospects as well as comparisons to competitors.

6. Composite dispersion is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the Composite for the entire period.
7. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fees performance returns are calculated by adjusting the gross-of-fees performance return by the highest fee for the institutional strategy as outlined in Part 2A of the firm's Form ADV, applied on a monthly basis. Certain accounts in the Composite may pay asset-based custody fees that include commissions. For these accounts, gross returns are also net of custody fees. 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 2A of the firm's Form ADV. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
8. Effective July 1, 2023, the firm transitioned from using actual account fees in the calculation of net performance returns to applying the highest fee for the institutional strategy as outlined in Part 2A of the firm's Form ADV. The net performance track record was revised back to Composite inception.
9. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3-year annualized standard deviation is not presented as of December 31, 2015, December 31, 2016, and December 31, 2017, because the 36-month returns were not available for the Composite (N/A).
10. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
11. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
12. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
13. Past performance is not indicative of future results.
14. This is not an offer to sell securities. That may only be accomplished by the issuance of a private offering memorandum/subscription documents.
15. 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.