

Sustainable International Leaders Strategy

INVESTMENT LETTER | September 2023



We invest in companies that we believe exhibit the following qualities: strong and enduring competitive advantages, high returns on invested capital (ROIC), capable and rightly incentivized management teams and attractive valuation over a long-term investment horizon. We expect these investment characteristics to enable our portfolio to generate attractive risk-adjusted performance throughout the economic cycle.



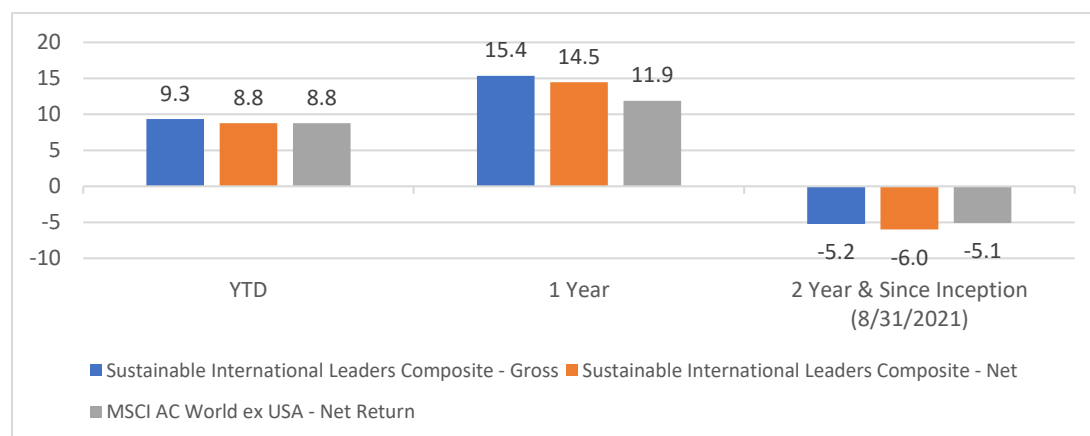
Priyanka Agnihotri
Portfolio Manager

Dear fellow investors,

As we reflect on our investment journey over the two years since we launched the Sustainable International Leaders strategy, we would like to share with you the underlying philosophy that has guided us and the progress we have made so far.

Our North Star is to invest in differentiated franchises rather than commoditized businesses that struggle to earn their cost of capital. We firmly believe that businesses with enduring competitive advantages and strong management teams, when purchased at a sensible valuation, possess the potential to generate attractive returns and outperform the broader market throughout an economic cycle. This philosophy has proven to be a solid foundation for our investment approach and led the strategy to outperform our benchmark MSCI All Country World Index (ACWI) ex-USA by 2.6% (Sustainable International Leaders net performance 14.5% vs MSCI AC World ex. USA 11.9%) over the last year and slightly underperform by 0.9% since inception.

Annualized Performance Since Inception (08/31/23)



Source: FactSet®. All returns greater than one year are annualized. The primary benchmark is the MSCI ACWI ex-US Index. The composite performance shown above reflects the Sustainable International Leaders Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC.

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A Tale of Two Halves

The period following the launch of the strategy was marked by significantly higher stock market volatility than had been seen for several years. We saw significant inflationary concerns and unprecedented supply chain challenges as we entered the post-pandemic world in 2021. Geopolitical tensions intensified along with what, in our calculations, appeared to be an unanticipated consolidation of power by China's leader, Xi Jinping. Interest rates rose rapidly in 2022 leading to widespread expectations of a macroeconomic slowdown in 2023 and a sharp sell-off in equities in 2022. However, global GDP accelerated in the first half of 2023 and a significant rally in equities across several major markets accompanied it. Some of these trends may prove to be temporary whereas others are likely to persist beyond the expectations of analysts, investors and experts. We find it quite difficult to predict any of these developments in advance, as this is something we believe to be outside our circle of competence. As is usually the case, Warren Buffett, the Oracle of Omaha says it best; *"You know, people talk about this being an uncertain time. You know, all time is uncertain. I mean, it was uncertain back in - in 2007, we just didn't know it was uncertain. It was - uncertain on September 10th, 2001. It was uncertain on October 18th, 1987, you just didn't know it. We always live in an uncertain world."*ⁱ Our plan is to navigate the uncertainty by investing in strong businesses that we believe will increase their intrinsic value in a predictable fashion over a long period and under a wide range of macroeconomic scenarios.

In the face of rapidly changing economic landscapes, we have focused on investing in companies that have the potential to thrive in multiple future scenarios. While the companies we invest in are not immune to macroeconomic slowdowns, we expect them to typically outperform their peers, coming out on the other side. Our investments in Rentokil, Compass Group, LVMH, LSE Group and Waste Connections demonstrate examples of companies whose excellent execution has exceeded our expectations. Nonetheless, we recognize that there were challenges, such as the unexpected regulatory changes affecting Tencent or the struggles faced by Shiseido in improving its growth and margin profile. Additionally, we underappreciated just how wide the distribution of outcomes was that we could encounter in early-stage companies such as Shopify and Adyen as their strategy and economics could change quickly and significantly over time. We have exited our investments in these businesses.

Two years is a relatively short period in the context of our long-term investment horizon. Nevertheless, we believe the heightened volatility over this time has offered some incredible opportunities for investing. We have seen strong operational execution in the companies that we have purchased since launch, including: the lithography equipment company ASML, the automotive semiconductor manufacturer NXP, outsourced food services supplier Compass Group and UK kitchen manufacturer Howdens Joinery. We have similar expectations from our more recently purchased names, such as the Mexican airport operator Grupo Aeroportuario del Pacifico and the Indian IT services company Tata Consultancy Services. In short, we believe we have opportunistically improved the quality of our portfolio.

What Sets us Apart?

There are several areas where we operate differently from many of our peers. We have talked in the past about some of them, including our concentrated approach and our sustainable investment philosophy. I will take this opportunity to highlight a couple of other areas.

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One of the differentiators for the strategy is the work we have done to get better at managing our behavioral biases, stemming from our *homo sapien* evolutionary roots. We have hired an external consultant who provided us with unbiased conclusions based on two years of data for the strategy. Our reflections, albeit over a short period of two years, have shown that our larger-weighted investments have outperformed, whereas the smaller-weighted ones have underperformed. Thus, we have allocated most of our capital to our best ideas while minimizing the drag from those that have not worked (yet). To us, this suggests that our capital allocation process appears to be working as we would expect.

We firmly believe that our ability to have a long-term horizon is another strategic advantage. This manifests not just in our investment process but also in how we operate as a firm and in our client base. By adhering to a long-term perspective in evaluating companies, we have been able to emphasize actions that make economic sense over a five-year plus horizon. For instance, we understand the importance of preserving a company's long-term competitive position by continuing to invest even during challenging times and have welcomed these investments made by our portfolio companies during the pandemic. Companies such as Wolters Kluwer, Compass Group and Booking continued to invest in new products and services, whereas others such as LVMH and Sika took advantage of temporarily depressed valuations to make value-accretive acquisitions with Tiffany and MBCC, respectively. Furthermore, we seek to align ourselves with long-term partners in the management of our portfolio companies. This means collaborating with founders and managers who share our vision and have a vested interest in the success of their companies over the long haul.

Conclusion

The journey of investing is filled with challenges and opportunities, and we are excited to embark on this path with you. Our philosophy of investing in differentiated franchises, coupled with our long-term perspective and behavioral edge, has enabled us to navigate the market with resilience and deliver strong performance. We are excited about the quality of our portfolio and remain committed to incremental improvements in our research and decision-making process over time.

We are grateful for the trust and confidence you have placed in us. Thank you for your continued support, and please do not hesitate to reach out to us if you have any questions.

Priyanka and the Sustainable International Leaders Team

ⁱ Warren Buffett on Recession, Taxing the Rich, and Capitalism's 'Regenerative Capacity'. Interview with Becky Quick, www.cnn.com. September 23, 2010

Disclosures

Past performance may not be a reliable guide to future performance and investors may not get back the amount invested. All investments involve risk. The value of the investment and the income from it will vary. There is no guarantee that the initial investment will be returned.

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The MSCI ACWI (All Country World Index) ex USA Index captures large and mid-cap representation across Developed Markets (DM) countries (excluding the US) and Emerging Markets (EM) countries. The index covers approximately 85% of the global equity opportunity set outside the US. 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. $ROIC = NOPAT / IC$. $NOPAT = EBIT + \text{Amortization of acquired intangibles} - \text{Cash tax paid}$. $IC = \text{Total Debt} + \text{Total Equity} + \text{Total unfunded pension liabilities} - \text{Excess Cash}$.

Sustainable International Leaders 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)*
2022	-16.5	-17.2	-16	N/A	N/A	Five or fewer	N/A	17	58,575
2021**	-1.6	-1.9	-1.4	N/A	N/A	Five or fewer	N/A	1	79,715

**Return is for period September 1, 2021 through December 31, 2021.

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- *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 Sustainable International Leaders Composite (the Composite) includes all discretionary portfolios invested in the Sustainable International Leaders strategy. The Sustainable International Leaders strategy aims to achieve capital appreciation by investing primarily in international equities. The strategy intends to 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.
- 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 Composite creation date is October 6, 2021. The Composite inception date is September 1, 2021.
- The benchmark is the MSCI ACWI ex U.S. Net Index rebalanced quarterly. The MSCI ACWI ex U.S. Net Index captures large and mid-cap representation across Developed Markets (DM) countries (excluding the U.S.) and Emerging Markets (EM) countries. The Index covers approximately 85% of the global equity opportunity set outside the U.S. 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.
- As of September 1, 2022, the Composite benchmark was changed from the FTSE All-World ex-U.S. Net Index to the MSCI ACWI ex U.S. 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.
- 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.
- 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.

9. 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.
10. The investment management fee for the Investor Shares of the Brown Advisory Sustainable International Leaders Fund (the Fund), which is included in the Composite, is 0.75%, and represents the highest fee charged excluding Advisor Shares. The total expense ratio for the Investor Shares of the Fund is 1.00%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
11. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3-year annualized standard deviation is not presented as of December 31, 2021 and December 31, 2022 because 36 month returns for the Composite were not available (N/A).
12. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
13. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
14. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
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