



Article 10 Transparency Statement in respect of
Brown Advisory US Sustainable Value Fund (the “Fund”)
LEI code: 635400UMUKKW8KI6QR86
a sub-fund of Brown Advisory Funds plc (the “Company”)
Prepared by Brown Advisory (Ireland) Limited (the “Manager”)
Brown Advisory LLC (the “Investment Manager”)
31 May 2023

This document provides you with sustainability-related information about the Fund and is made available on the Investment Manager’s website. It is prepared in relation to Article 10 of the Sustainability Finance Disclosure Regulation (EU) 2019/2088. The information disclosed is required by law to help you understand the sustainability characteristics and/or objectives and risks of the Fund.

Words and expressions defined in the supplement to the prospectus of the Company relating to the Fund (the “**Supplement**”) shall, unless the context otherwise requires, have the same meaning when used in this Article 10 Transparency Statement.

(a) Summary

The investment objective of the Fund is to achieve capital appreciation by investing primarily in U.S. equities. The Fund aims to achieve its investment objective by investing in the equity securities of undervalued high-quality large-sized companies which are listed or traded on the U.S. markets and exchanges listed in the Company’s prospectus.

The Fund promotes environmental and social characteristics, but does not have as its objective sustainable investment.

Although the Fund promotes environmental characteristics and may from time to time hold investments in economic activities that qualify as environmentally sustainable activities under the Taxonomy Regulation (“**Taxonomy-Aligned Investments**”), the minimum level within the Fund will be 0%, as the Investment Manager wishes to maintain a flexible approach in selecting investments with environmental characteristics that are suitable for the Fund. However, at least 50% of the Fund’s underlying investments that promote environmental and social characteristics will be in Sustainable Investments.

The Investment Manager believes that investing in companies focused on culture and capital discipline, operational excellence, and superior customer outcomes will drive a Sustainable Cash Flow Advantage (“**SCFA**”) over time. Through its ESG research expertise, it seeks to uncover companies with SCFAs. While the vast majority of companies in the portfolio of the Fund will possess a clear SCFA, the Investment Manager will also invest in companies that are moving towards achieving a SCFA.

The Fund uses both qualitative and quantitative ESG information to assess each investment in the portfolio:

- environmental characteristics are measured, for example, by indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on nature.
- social characteristics are measured, for example, by identifying investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities.



The above-named indicators are not exhaustive and are analysed to the extent disclosure and data are available.

The Investment Manager will conduct ESG analysis for every company in the Fund, including an assessment of sustainable opportunities and ESG risks.

In addition, the Investment Manager will exclude and limit its exposure to particular companies and industries as further described below.

The Fund will seek to exclude holdings the Investment Manager deems inconsistent with applicable binding restrictions described below. As a result, the universe of investments available to the Fund will be more limited than other funds that do not apply such characteristics. However, the Fund may have exposures to certain companies which some investors consider contrary to ESG principles, such as defence and conventional weapons. The application of the binding restrictions could result in performance that is better or worse than the performance of a similar fund, depending on the performance of the excluded investments and the investments included in place of such excluded investments. The Fund's binding restrictions may effectively accommodate the requirements of certain Fund investors but not others, and may be more or less restrictive than a particular fund an investor might otherwise prefer.

A reference benchmark has not been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.

(b) No Sustainable Investment Objective

The Fund promotes environmental and social characteristics, but does not have as its objective sustainable investment.

In assessing harm, the Investment Manager may consider available '*Principal Adverse Indicators*' ("**PAI**") (as defined in Annex 1 of SFDR), controversial business exposure, ESG controversies, and ESG risk exposure and management practices. As an additional means of avoiding certain harmful business activities, the Fund will also abide by certain exclusions.

Where an investee company is deemed to be doing significant harm to the environment or society, and due diligence (including engagement) with the company indicates that the harm is systemic, detractive from our investment, and the harm is unlikely to be mitigated within the Investment Manager's investment horizon, the Investment Manager will exit the position.

Although the Fund promotes environmental characteristics and may from time to time hold investments in economic activities that qualify as environmentally sustainable activities under the Taxonomy Regulation ("**Taxonomy-Aligned Investments**"), the minimum level within the Fund will be 0%, as the Investment Manager wishes to maintain a flexible approach in selecting investments with environmental characteristics that are suitable for the Fund. However, at least 50% of the Fund's underlying investments that promote environmental and social characteristics will be in Sustainable Investments.

(c) Environmental or Social Characteristics of the Fund

The Investment Manager will uncover companies that possess strong or evolving SCFAs through its ESG research expertise. A company is considered to have SCFA if it is focused on culture and capital discipline, operational excellence and superior customer outcomes that lead to both long-term financial performance and certain positive ESG outcomes.

The nature of the environmental or social outcomes associated with the identified SCFA will vary by company, however the Fund's environmental and social characteristics are to maintain a set of investments that collectively:



1. have relatively low emissions footprints or have set targets to reduce their emissions footprint and are making reasonable progress toward such targets;
2. have appropriate levels of diversity (gender and other minority groups) on the board and in senior management; and
3. do not violate any of the principles of the UN Global Compact (UNGC).

In the case of 1 and 2 above, the Investment Manager will engage directly with companies that do not possess these characteristics or are laggards when compared to other companies in their industry.

In the case of 3 above, companies will be excluded if the Investment Manager deems the principles of the UNGC have been violated.

(d) Investment Strategy

The investment objective of the Fund is to achieve capital appreciation by investing primarily in U.S. equities. The Fund aims to achieve its investment objective by investing in high-quality large-sized companies which are listed or traded on the U.S. markets and exchanges listed in the Company's prospectus.

The Fund invests primarily in a concentrated low turnover portfolio of undervalued U.S.-based companies that the Investment Manager believes possess the following fundamentals: (i) have durable free cash flow streams; (ii) exhibit capital discipline through both balance sheet management and capital expenditures; (iii) are run by management teams that have a proven and capable capital allocation track record; and (iv) are attractively valued and provide a favourable reward vs. risk outlook. In addition, the Fund promotes certain environmental and social characteristics and, as a result, the companies in which the Fund invests must satisfy the Investment Manager's ESG requirements set out in the Supplement.

The Fund will aim to maintain a concentrated portfolio, typically consisting of up to forty-five (45) companies. However, the Fund reserves the right to hold a less concentrated portfolio should the Investment Manager regard it as being in the interests of Shareholders.

The Fund will invest primarily in large companies characterised by market capitalisation of \$3 billion and greater at the time of purchase. The market capitalisations of the companies in the Fund's portfolio will change over time; the Fund will not automatically sell or cease to purchase stock of a company it already owns just because the company's market capitalisation grows or falls outside this range.

The Fund seeks to purchase the securities of undervalued companies which the Investment Manager believes has attractive fundamentals in, appropriate ESG risk management systems in place, and strong or evolving sustainable opportunities, at what it considers attractive valuations in the context of the fundamental position of each underlying company. The Investment Manager considers that companies possess a sustainable opportunity where they have ESG characteristics that may improve the company's financial position, including sustainable products, services or operations.

The Investment Manager believes that investing in companies focused on culture and capital discipline, operational excellence, and superior customer outcomes will drive a SCFA over time. Through its ESG research expertise, it seeks to uncover companies with SCFAs. While the vast majority of companies in the portfolio of the Fund will possess a clear SCFA, the Investment Manager will also invest in companies that are moving towards achieving a SCFA.

The Investment Manager employs a bottom-up research process to build a mosaic of information comprised of integrated fundamental and ESG research to evaluate and analyse a company's



investment profile. This process identifies up to 45 companies that meet the Investment Policies of the Fund. The Investment Manager seeks companies trading at attractive free cash flow yields run by management teams with a history of prudent capital allocation. Fundamental analysts work side by side with the Investment Manager's sustainable investing team to identify companies that demonstrate sustainable business characteristics through the Investment Manager's "3P" investment filter: People - Process – Product.

- People: For example:
 - Attraction, retention and internal promotion of employees drives cost savings while also creating a cultural advantage
 - Leadership on diversity, equity and inclusion has the potential to serve as both a mechanism for improved employee management and generation of revenue tied to innovation
- Process: For example:
 - Sound operations that promote a safe and healthy community can bolster franchise value, while also avoiding regulatory and reputational risk
 - Margin improvement through operations that save costs and resources, enabling meaningful reduction in carbon emissions and natural resource consumption
- Product: For example:
 - Products or services that provide superior customer outcomes resulting in recurring revenue while also providing environmental and/or social solutions

The Investment Manager looks for value and sustainability across a wide range of industries and sectors, subject to the application of the Investment Manager's Socially Responsible Investment ("SRI") Guidelines. The Investment Manager defines "value" as durable, free cash flow businesses that exhibit capital discipline.

Specifically, the Fund will exclude knowingly owning equity securities of companies:

- a) that defy the ten United Nations Global Compact Principles (UNGC); and/or
- b) that directly manufacture of controversial weapons (including, though not limited to, cluster munitions, land mines, biological weapons, and/or chemical weapons); and/or
- c) that conduct animal testing for non-medical purposes and do not exhibit strong ethical policies and practices; and/or
- d) whose primary business activities are directly tied to conventional exploration, extraction, production, manufacturing or refining coal, oil, or gas; and/or
- e) whose primary business activities are directly tied to producing electricity derived from fossil fuels; and/or
- f) with significant assets directly invested in conventional fossil fuel reserves,

where, in the case of (d) to (f) above, such companies do not have evidence of a transition towards decarbonising their business.

The Fund will apply the following investment guidelines in respect of underlying issuers to ensure that a company will not be included if it knowingly has more than 5% of its revenue derived directly from:

- the manufacture of conventional weapons; and/or



- alcohol products; and/or
- tobacco products; and/or
- adult entertainment; and/or
- gambling.

The Fund will seek to exclude holdings the Investment Manager deems inconsistent with applicable ESG characteristics described above. The application of the ESG characteristics could result in performance that is better or worse than the performance of a similar fund, depending on the performance of the excluded investments and the investments included in place of such excluded investments. The Fund's ESG characteristics may effectively accommodate the requirements of certain Fund investors but not others, and may be more or less restrictive than a particular fund an investor might otherwise prefer.

(e) Proportion of Investments

The Investment Manager expects that the Fund will allocate 80% of its Net Asset Value to investments aligned with environmental and social characteristics. A minimum of 50% of the Fund's investments that promote environmental and social characteristics will be in companies that have been determined to be sustainable investments. Investments in the other 20% may include other investments that have not been determined to be aligned with the environmental and/or social characteristics of the Fund. For such investments, the Investment Manager will still apply the exclusions set out in the Supplement and the binding elements described above. Cash that has not yet been allocated to an investment or that is used for liquidity or hedging purposes will also be included in the other 20%.

(f) Monitoring of Environmental or Social Characteristics

The Investment Manager employs the SRI Guidelines to confirm that an investment meets minimum environmental and/or social guidelines prior to purchase. This screening is then conducted on portfolio holdings periodically after investment in order to monitor ongoing compliance with these minimum criteria.

Quarterly reports on Fund holdings are created by the Investment Manager's Reporting and Business Intelligence team with data sourced from the proprietary research assessments which is reviewed by the Portfolio Managers. These reports document the proprietary ESG ratings assigned to a holding together with available third-party data.

An ESG research assessment is provided for every company in the Fund's portfolio. These assessments will be delivered in the form of an "**ESG Assessment**" created by the ESG research analysts and includes an assessment of ESG risks and sustainable opportunities. The ESG Assessment will analyse ESG information that may contribute or detract from the financial performance of the security. At the Investment Manager's discretion, the Fund is permitted to make an investment without a written ESG Assessment on file at the time of purchase, as long as the Investment Manager believes the relevant security meets the Fund's sustainability criteria as outlined in the Fund Supplement.

(g) Methodologies

Although the Fund does not have a specific sustainable investment objective, the Investment Manager will conduct ESG analysis for every company in the Fund, including an assessment of sustainable opportunities and ESG risks.

The Investment Manager may use specific ESG research from independent research providers in



respect of the Fund.

The Fund uses both qualitative and quantitative ESG information to assess each investment in the portfolio:

- environmental characteristics are measured, for example, by indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on nature.
- social characteristics are measured, for example, by identifying investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities.

The above-named indicators are not exhaustive and are analysed to the extent disclosure and data are available.

(h) Data Sources and Processing

The Investment Manager relies on a number of data sources when conducting ESG due diligence. These sources include publicly available data, third party data providers, information gathered from engagement activity if applicable and the Investment Manager's research team's analysis. Third party data is one input in Fund's approach to ESG analysis but is not the primary factor in the ESG assessment. The ESG research team is responsible for monitoring the data used in its ESG assessments.

(i) Limitations to Methodologies and Data

In assessing ESG factors of a security or issuer, the Investment Manager may use information and data from third-party ESG research providers, which may be incomplete, inaccurate or unavailable. It may also seek to rely on its own proprietary models which may similarly rely on information which is incomplete, inaccurate or unavailable. As a result, there is a risk that the Investment Manager may incorrectly assess a security, issuer or index. There is also a risk that the Investment Manager, or third-party ESG research providers the Investment Manager may use, may not interpret or apply the relevant ESG factors correctly. Neither the Fund nor the Investment Manager or any of their affiliates make any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of any such ESG Assessment.

Investing on the basis of ESG criteria is qualitative and subjective by nature, and there can be no assurance that the data received from the Investment Manager's vendors or any judgment exercised by the Investment Manager will reflect the beliefs or values of any particular investor. Data and qualitative information are inherently subject to interpretation, restatement, delay and omission outside the Investment Manager's control.

(j) Due Diligence

The Investment Manager's ESG research team monitors the companies in the Fund on an on-going basis, and additional monitoring is also undertaken through a quarterly review of certain ESG characteristics of the Fund. In addition to the proprietary and qualitative ESG analysis, the Investment Manager has access to ESG-related data from third-party providers.

(k) Engagement Policies

The Investment Manager seeks to conduct ongoing discussions with companies to inform its investment research and decision-making. When possible and material to an investment decision, these conversations are a standard component of the Investment Manager's ESG research process and take place as part of the Investment Manager's initial vetting of holdings, and periodically thereafter as part



of the monitoring process for existing holdings in the Investment Manager's portfolios, such as the Fund.

From time to time, the Investment Manager's investment team collaborates with certain companies/issuers and industry groups to advocate for improved ESG practices, and/or continued implementation of existing ESG-related initiatives as part of its ongoing interest in a portfolio holding. Similarly, the Investment Manager is asked by companies for feedback and informal advice on the development, improvement and/or communication of the company's ESG efforts from time to time. The Investment Manager does not act in any formal capacity as an advisor or consultant on these matters, but rather as a sounding board. Finally, the Investment Manager partners with investor groups and non-profits to help advance certain ESG issues as relevant and important to its investments.

(l) Designated Reference Benchmark

A reference benchmark has not been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.

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