

# Sustainable Small-Cap Core

## STRATEGY FACT SHEET

First Quarter 2021

### CORE ATTRIBUTES

Active stock research. Enhanced screening. Low tracking error. High active share. Cost-effective.

### WHY INVEST IN THE BROWN ADVISORY SUSTAINABLE SMALL-CAP CORE PORTFOLIO?

**Applied research that goes beyond negative screening.** Because we seek to holistically understand each investment's fundamental profile, we evaluate every company's environmental, social, and governance (ESG) attributes at a level deeper than negative screening. Through this, we attempt to mitigate risk and assemble a portfolio of companies that are appropriately managing their ESG risks and have favorable ESG profiles.

**Our process.** From the universe of securities covered by our global equity research team, we apply a multi-stage ESG process and apply screens designed to deliver a portfolio of our highest conviction securities with favorable ESG profiles. Seeking to isolate factor and idiosyncratic risks, as well as achieve high active share and low tracking error, we build a portfolio of typically 70-90 securities. In managing this portfolio, we strive for low turnover, to minimize unintended risk and maintain diversification in the portfolio.

Portfolio Managers: Tim Hathaway, CFA; Emily Dwyer  
Associate Portfolio Manager: Kenneth Coe, CFA  
Benchmark: Russell 2000® Index

### ESG IS MATERIAL TO FUNDAMENTALS. WE SEEK TO UNDERSTAND IT IN MULTIPLE STEPS.

ESG factors can warn investors of risk inherent in companies. Our goal is to identify these risks, as well as controversial business activities, and exclude them from the portfolio.



#### ESG RISK ASSESSMENT

- Identifies exposure to material risks and management of those risks
- Monitors ESG-related news and controversies



#### CONVERSATIONS WITH COMPANY MANAGEMENT

- We engage with every company in which we invest - including ESG-related concerns
- We support proxy proposals that have a clear and direct positive financial effect to shareholder value



#### SCREENING

- Excludes companies that engage in undesired practices
- Our multi-layer ESG analysis offers more thoughtful results than programmatic exclusions alone

### TOP 10 PORTFOLIO HOLDINGS %

Cash & Equivalents	3.9
Bright Horizons Family Solutions, Inc.	3.2
Nexstar Media Group, Inc. Class A	2.8
Charles River Laboratories International, Inc.	2.7
IAA, Inc.	2.5
Hain Celestial Group, Inc.	2.4
Sprouts Farmers Markets, Inc.	2.4
Onto Innovation, Inc.	2.3
UMB Financial Corporation	2.2
Comfort Systems USA, Inc.	2.2

### SECTOR DIVERSIFICATION (%)

	REP. ACCT	INDEX
Communication Services	3.0	2.5
Consumer Discretionary	9.5	14.9
Consumer Staples	6.1	3.2
Energy	--	2.6
Financials	18.5	16.0
Health Care	13.1	19.0
Industrials	19.1	15.5
Information Technology	25.8	13.0
Materials	--	4.5
Real Estate	4.9	5.9
Utilities	--	2.7

### STRATEGY PROFILE AS OF MARCH 31, 2021

#### BENCHMARK INDEX

Russell 2000® Index

#### INCEPTION DATE

June 30, 2017

#### VEHICLES AVAILABLE

Separately Managed Account (SMA)

#### ROLE IN PORTFOLIO

An ESG-focused small-cap core investment with low tracking error and high active share

#### COMPOSITE PERFORMANCE (% AS OF 03/31/2021)

	3 MOS	1YR	3YR	ITD
Sustainable Small-Cap Core (Gross)	11.25	92.32	20.43	19.85
Sustainable Small-Cap Core (Net)	11.18	91.60	19.88	19.34
Russell 2000 Index	12.70	94.85	14.76	14.27

#### CHARACTERISTICS AS OF 03/31/2021

	SUSTAINABLE SMALL-CAP CORE REP. ACCT.	INDEX
Wtd. Avg. Market Capitalization (\$B)	5.1	3.6
P/E Ratio (FY2 Est.(x))	20.7	17.5
Portfolio Beta	0.84	--
Active Share (%)	95.5	--
Tracking Error (1yr)	5.8	--
Dividend Yield (%)	0.7	0.9

#### PORTFOLIO MANAGER PROFILE

##### TIM HATHAWAY, CFA

Tim Hathaway is the portfolio manager and leads the U.S. institutional business. His team is responsible for equity and fixed income research and portfolio management. He was previously the director of research and institutional investment management. Tim was a co-portfolio manager of the Small-Cap Growth strategy for nine years until 2014. Prior, he was an analyst responsible for researching the consumer discretionary and energy sectors.

##### EMILY DWYER

Emily Dwyer is the associate portfolio manager and is a research analyst focusing on ESG research. Prior to Brown Advisory, Emily worked at Parnassus Investments in San Francisco, Sustainalytics in Boston and at the United Nations Environment Programme in Geneva.

##### KENNETH COE, CFA

Ken Coe is the associate portfolio manager and is an equity research analyst focusing on the financials sector. Prior to Brown Advisory, he served as an analyst at First Annapolis Consulting and also worked on a financial econometrics research study.

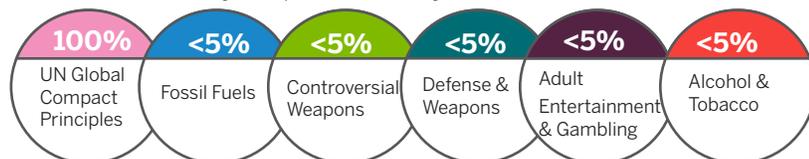
Source: FactSet®. The portfolio information provided is based on a representative Brown Advisory Sustainable Small-Cap Core account as of 03/31/2021 and is provided as supplemental information. Sector breakdown and portfolio characteristics exclude cash and equivalents; top 10 holdings include cash and equivalents. 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. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. Past performance is not indicative of future results. Numbers may not total due to rounding. Please see the disclosures on the reverse side for additional information and a complete list of terms and definitions. The composite performance shown above reflects the Brown Advisory Sustainable Small-Cap Core Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a division of Brown Advisory LLC, and Brown Advisory Institutional is a GIPS compliant firm. Please see the reverse side for additional information and for a GIPS-compliant presentation.

## MULTI-STEP ESG ANALYSIS REDUCES THE UNIVERSE FROM THE UNIVERSE COVERED BY OUR GLOBAL RESEARCH ANALYSTS, WE INTEGRATE MULTI-STEP ESG RESEARCH

Our proprietary *ESG Risk Assessments* are completed on every company held in the portfolio. This assessment is designed to identify a company's material ESG risk factors, and the management of those risks, to understand the ESG risk profile of a company.

## NEGATIVE SCREENS FURTHER REFINE ESG PROFILE 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.

In addition to our proprietary and qualitative ESG analysis, we rely on a third-party provider to apply a rules-based screening process which seeks to identify companies that may have controversial business involvement, as determined by Brown Advisory.



## ISOLATING RISK SOURCES DELIBERATE PORTFOLIO CONSTRUCTION IN PURSUIT OF AN OUTCOME

Using multi-factor analysis, we isolate macro influences from stock-specific risks and build a diversified portfolio of companies with compelling ESG profiles. Additionally, we target a portfolio with low tracking error and high active share versus its benchmark.

## RESULTING PORTFOLIO A PORTFOLIO OF HIGH-CONVICTION NAMES THAT INTEGRATES ESG BEYOND NEGATIVE SCREENING

The portfolio is composed of equities selected to minimize tracking error against the benchmark and endemic risk.

## ONGOING PORTFOLIO MANAGEMENT THE PORTFOLIO UNDERGOES ONGOING SCRUTINY AND MONITORING

We repeatedly test our investment thesis for each holding. Should our thesis materialize or unfavorable news break, we determine the holding's continued propriety for the strategy.

### Brown Advisory Sustainable Small-Cap Core 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)	Firm Assets (\$USD Millions)
2020	25.8	25.3	20	23.7	25.3	33	1.2	16	59,683
2019	36.2	35.6	25.5	N/A	N/A	6	N/A	5	42,426
2018	-5.8	-6.3	-11	N/A	N/A	Five or fewer	N/A	1	30,529
YTD 2017**	9.8	9.6	9.2	N/A	N/A	Five or fewer	N/A	0.1	33,155

\*\*Return is for period July 1, 2017 through December 31, 2017.

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2019. The Verification reports are available upon request. 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.
- The Sustainable Small-Cap Core Composite (the Composite) is composed of all discretionary portfolios which invest primarily in the common stocks of U.S. small and medium market capitalization companies. Using both fundamental research & proprietary ESG analysis, the strategy takes a tax-sensitive approach to managing a concentrated portfolio of high-conviction companies while seeking to outperform the Russell 2000 Index over the long term.
- Prior to June 1, 2021, the Composite was named the U.S. Small-Cap ESG Composite. The strategy remains the same.
- 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 August 31, 2017. The Composite inception date is July 1, 2017.
- The benchmark is the Russell 2000® Index. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000® Index and FTSE Russell® are trademarks/service marks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
- The composite dispersion presented 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. Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Certain accounts in the Composite pay asset-based custody fees that include commissions. For these accounts, gross and net returns are also net of custody fees. Other expenses can reduce returns to investors. The standard management fee schedule is as follows: 0.65% on all assets with a minimum account size of \$250,000. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
- The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The three-year annualized standard deviation is not presented as of December 31, 2017, December 31, 2018 and December 31, 2019 because 36 month returns for the Composite were not available (N/A).
- Valuations and performance returns are computed and stated in U.S. dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
- Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
- Past performance is not indicative of future results.
- This piece is provided for informational purposes only and should not be construed as a research report, a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned, including any mutual fund managed by Brown Advisory.

### Terms and Definitions for Representative Account Calculations

The **Market Capitalization** refers to the aggregate value of a company's publicly traded stock. **Weighted Average Market Capitalization** of a portfolio equals the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation). **Price-Earnings Ratio (P/E Ratio)** is the ratio of the share of a company's stock compared to its per-share earnings. P/E calculations presented use FY2 earnings estimates; FY1 estimates refer to the next unreported fiscal year, and FY2 estimates refer to the fiscal year following FY1. **Beta** is a measure of the volatility of a security or a portfolio of securities in comparison to a benchmark or the market as a whole. A beta less than 1 means that the security will be less volatile than the market, while a beta greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it is theoretically 20% more volatile than the market. **Portfolio Beta** is calculated by comparing the series of monthly returns of the portfolio to the monthly returns of the benchmark, for the period of time specified. **Active Share** measures the percentage of holdings in a manager's portfolio that differ from those in the benchmark index. An active share of 0% means that the portfolio is identical to the benchmark, while an active share of 100% means that the portfolio has no common holdings with the benchmark. **Dividend Yield** is the ratio of a stock's projected annual dividend payment per share for the fiscal year currently in progress, divided by the stock's price. **Tracking Error** is a measure of the risk in an investment portfolio that is due to active management decisions made by the portfolio manager; it indicates how closely a portfolio follows the index to which it is benchmarked.