

Brown Advisory Sustainable Small-Cap Core Fund



3 year Anniversary | September 2024

In September 2021 we launched the Sustainable Small-Cap Core Fund— three years in, we reflect on our approach to investing in the small-cap asset class and the valuable lessons learned along the way. This milestone represents not only the culmination of rigorous research coming out of our analyst team and a disciplined investment process, but also our unwavering commitment to meeting our clients' investment needs by developing solutions in the small-cap asset class.



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Portfolio Manager;
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Our Investment Approach

For readers who may be new to our Fund, we would like to take a moment to reaffirm our investment philosophy, which has consistently served as our guiding principle since inception. The Fund's investment approach seeks outperformance through a concentrated, low-turnover portfolio of companies with strong business fundamentals, reasonable valuations, and Sustainable Drivers that stem from a company's products, services, or operations. We look for companies with compelling fundamental characteristics such as effective capital allocation, clean balance sheets, sustainable free cash flows, and durable growth and revenue visibility, underpinned by proven management teams. Our sustainability analysis—focusing on material environmental and social factors—aims to identify positive financial impacts on revenues, costs, and operational advantages. We call these Sustainable Drivers. We believe investing behind companies that are growing revenues, cutting costs, and operating more efficiently because of, not in spite of, sustainable business practices, has the potential to contribute to long-term value creation for our clients.

Navigating Research Challenges

When we incepted the Fund several years ago, we were keenly aware of the due diligence hurdles that our research team would need to overcome. The small-cap asset class has long been an area plagued by limited data and transparency, including, but certainly not limited to, sustainability-related information. While

we have observed some marked improvements in reporting over the last three years of managing this Fund, high quality, reliable sustainability data remains limited and still in a nascent stage. As a team, we approached these challenges from a position of strength, combining the proven small-cap research process that Chris, David and Tim collectively established over the last two decades, with the sustainable research process that Emily developed and refined over the last decade. Importantly, our analyst team plays a pivotal role in addressing these informational inefficiencies by engaging with company management teams, their customers and suppliers, as well as industry subject matter experts. This has helped us gain a differentiated perspective on the companies in which we invest.

Furthermore, integrating our investment philosophy within value-oriented investments presents a distinct set of complexities. This corner of the market often includes companies operating in industries traditionally excluded from other portfolios, such as the energy sector. Our due diligence process has underscored the importance of focusing on where future opportunities for sustainable value creation lie, rather than excluding companies simply due to their complex and often polarized operational legacies. We believe that many small-cap enterprises are uniquely positioned to drive transformative change and provide innovative solutions to some of society's most pressing challenges, such as the energy transition.

Reflecting on the Investment Environment

Over the past three years, we have faced unprecedented economic and sustainability hurdles. During this time, the small-cap asset class has been challenged, posting its worst returns relative to large-cap indices in recent history. Persistent inflation, rising interest rates, a U.S. banking crisis, and supply chain disruptions have all posed significant obstacles for the economy and small-cap investors. We also saw numerous record-setting events over this period; most recently, 2023 marked Earth's warmest year on record, with the US experiencing the highest number of billion-dollar disasters in a calendar year¹. All of these events have investment implications, and as stewards of capital on behalf of our clients, it is imperative for us to continuously assess these risks and opportunities within our investment decisions.

Many of the companies held in the Sustainable Small-Cap Core Fund are helping to address some of these challenges through more resource-efficient equipment and operations, accessible healthcare, affordable foods, and financial inclusion, for example. In particular, we have identified several pockets of the small-cap asset class that are in the unique position to benefit from US reshoring, the CHIPS Act, infrastructure improvements, and emerging reporting requirements.

These challenging market environments, which have oscillated between favoring growth and value, have underscored for us the importance of delivering a core-oriented portfolio for our shareholders. We have learned the value of working closely with our analyst team to understand the fundamental drivers of each stock from the bottom-up. This collaboration has helped us diligently monitor for sector, style, market cap, and other factor exposures in the portfolio in an effort to emphasize stock selection as the primary driver of returns. Based on our observations over the last twelve quarters, we believe that this approach to capital allocation has yielded balanced results in both growth and value-oriented markets. Although our investment horizon typically extends well beyond a three-year period, we find these early results encouraging.

Looking Ahead

As we celebrate this significant milestone, we remain deeply grateful to our clients, who trust us as stewards of their capital and serve as our partners as we learn, innovate and improve over time. We are continually refining our investment processes and expanding our research capabilities to ensure that the Sustainable Small-Cap Core Fund is well positioned to potentially achieve strong risk-adjusted returns for our clients. We feel privileged to have the opportunity to execute this investment philosophy on our clients' behalf.



Thank you for your continued support,

**The Sustainable Small-Cap Core Portfolio
Management Team**

Disclosures

1 Source: Climate.gov. As of January 8, 2024, representing the most recent data available.

Mutual Fund investing involves risk. Principal loss is possible.

Before investing you should carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information is in the summary or statutory prospectus, a copy of which may be obtained by calling 1-800-540-6807 or visiting the Fund's website, <https://www.brownadvisory.com/mf>. Please read the prospectus carefully before you invest.

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.

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 Fund. Sustainable investment considerations that are material will vary by investment style, sector/industry, market trends and client objectives. The Sustainable Small-Cap Core Fund 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 Fund may invest in companies that do not reflect the beliefs and values of any particular investor. The Fund 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 Fund incorporates data from third parties in its research process but does not make investment decisions based on third-party data alone.

The Fund's 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 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. 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.

Past performance is no guarantee of future results.

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Note: A fund's performance for very short time periods may not be indicative of future results.