

BA Beutel Goodman World Value Fund

Q3 2024 Review | September 2024

For institutional investors and professional clients only.

Investment Approach

The BA Beutel Goodman World Value Fund uses bottom-up, fundamental research to invest in companies at discounts to their business value, defined as the present value of their sustainable free cash flow:

- A high-conviction, concentrated, unconstrained portfolio representing the team's best ideas - typically 25-30 holdings diversified across industries and geographies.
- Stocks bought at a meaningful discount to business value may offer an inherent margin of safety and return potential.
- A focus on quality companies with stable, growing businesses and strong balance sheets should mitigate the potential of capital loss.
- Concentrated portfolio with highest conviction ideas – typically 25–30 holdings in a diversified portfolio.
- Process-driven sell discipline – one-third sale of stocks that exceed their upside target; secondary review for stocks that exceed their upside or downside targets.

Overview

- The portfolio was in line with the MSCI World Value Index over the quarter
- At the individual security level, contributors on an absolute-return basis included Kellanova, eBay Inc. and BlackRock Inc.
- Detractors included Biogen Inc., Qualcomm Inc. and Infineon Technologies AG
- Process-Driven Trims: Tempur Sealy International Inc., Amgen Inc., Cencora Inc.

Investment Results

While global equity markets rose yet again in the third quarter of 2024, it was not a smooth ride up, as softer-than-expected economic data in August – along with a surprise rate hike in Japan that led to the unwinding of an enormously popular Yen-related carry trade – contributed to a sharp deterioration in risk appetite mid-quarter. However, following the dovish shift by other central banks in the period amid cooling inflation, including a 50 basis points rate cut by the U.S. Federal Reserve and a 25 basis points cut by the European Central Bank in September, equities rallied, with the MSCI World Value Index delivering a total return of 9.57%. The Utilities, Real Estate and Industrials sectors were among the index leaders, while Energy was the biggest laggard and only the negative-performing sector amid weakening oil prices.

Against this backdrop, the portfolio was in line with the benchmark performance in the quarter. Key sources of relative strength included the portfolio's zero weighting in Energy, and stock selection in Financials and Consumer Staples. Detractors included stock selection in the Health Care sector, a combination of stock selection and an overweight in Information Technology, and the portfolio's zero weightings in Utilities and Real Estate. That said, sector and regional allocations in our equity portfolios are driven purely by bottom-up, security-level considerations. As bottom-up stock pickers, we attribute our value add primarily to security selection.

Contributors on an absolute-return basis included Kellanova, eBay Inc. and BlackRock Inc. Kellanova (formerly the Kellogg Company) announced in mid-August that it had entered into an agreement to be acquired by Mars for a total of US\$35.9 billion. The marriage of these two iconic food brands was welcomed by the market, with Kellanova's stock up significantly on news of the deal. eBay reported solid Q2 results in August that beat guidance on all metrics including revenue, operating margin and EPS. The results are part of a longer-term positive trend for eBay as market sentiment has improved greatly for the e-commerce company in recent years. BlackRock rose after another solid earnings report, with US\$80 billion in net inflows in the second quarter, assets under management up US\$1.2 trillion to US\$10.6 trillion, and revenue and earnings up around 10% year over year. Two private market acquisitions also helped boost the stock. With its scale and increasing wins for whole portfolio solutions (e.g., taking over entire pension plans), we believe BlackRock's private assets could become a substantial pillar alongside its passive ETFs and active equity strategies. Despite the recent acquisition spree, capital returns continue, with \$500 million in buybacks for the second quarter along with the dividend at a 2.4% yield.

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Detractors included Biogen Inc., Qualcomm Inc. and Infineon Technologies AG. Biogen's stock price weakened ahead of reporting its second-quarter earnings at the beginning of August. The market has not responded positively to the launch of its Leqembi treatment for Alzheimers, with a slow ramp-up in patient starts weighing on the stock's performance. After strong performance in the second quarter, Qualcomm's stock slipped in early Q3 ahead of the company's earnings report. The pullback in the shares seems more to do with market sentiment than execution or performance; results were positive, with year-over-year revenue growth of 11%. Infineon's share price declined in the period ahead of reporting its fiscal Q3/2024 earnings in early August. While the results showed improvement in revenue and earnings compared to the previous quarter, as well as improved guidance for fiscal Q4/2024, this has not yet been reflected in its market performance.

Transactions

During the quarter, we completed process-driven 1/3 sales on Tempur Sealy International Inc., Amgen Inc. and Cencora Inc., as these stocks reached our target prices. We also trimmed our position in Kellanova.

The proceeds from these sales were subsequently redeployed into other holdings with more attractive valuations, including PPG Industries Inc., Comcast Corp., Biogen Inc., BlackRock Inc. and Qualcomm Inc.

Outlook

Global equity markets have generated relatively strong performance in the year to date. However, the current equity-investing landscape continues to be marked by significant uncertainty and market dislocation, with extreme concentration and valuation discrepancies, be it Growth versus Value, large caps versus small caps or even U.S. stocks versus the rest of the world. As such, we are likely to see volatility in the months ahead. Drawdowns such as the ones we witnessed in early August and early September can reverse just as sharply, as we saw at the respective months' ends. However, over the long term, through a non-linear process, we expect extremes to normalize and believe our contrarian portfolio is well positioned for such an outcome.

We do not equate volatility with risk; rather, we believe it often presents opportunities for long-term, value-oriented investors. If overall market volatility involves wider dispersion of individual stock performance, our buy/sell discipline may lead to trimming stocks that have achieved our target prices or have an outsized weight in the portfolio, as well as purchasing others that offer more favorable returns to target or that were previously priced above our entry point.

Our investment selection and portfolio construction process is designed to serve clients well through a wide range of economic and market conditions, with bottom-up research focused on amply capitalized businesses whose profitability has cushion to absorb various macroeconomic impacts. At this time, we remain close to fully invested and are confident in our positioning, with defensive quality leanings across sectors such as Health Care, Communication Services and Consumer Staples. These allocations are complemented by investments across well-priced Information Technology stocks, some Industrials holdings with varied business segments and end market exposures, and high-quality Financials. We plan to stay the course with our investments and there have been no changes to the long-term theses that underpin our investments.

Disclosures, Terms and Definitions

For institutional investors and professional clients only.

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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Performance data above relates to the BA Beutel Goodman World Value Fund (the "Fund"). The BA Beutel Goodman World Value Fund was launched under Brown Advisory's Irish UCITS umbrella on 31 January 2024. The performance is net of management fees and operating expenses. This communication is intended only for investment professionals and those with professional experience of investing in collective investment schemes. Those without such professional experience should not rely on it. This factsheet should not be shown or given to retail investors. Any entity responsible for forwarding this material to other parties takes responsibility for ensuring compliance with applicable financial promotion rules. Changes in exchange rates may have an adverse effect on the value price or income of the product. The difference at any one time between the sale and repurchase price of units in the Fund means that the investment should be viewed as medium to long term. This factsheet is issued in the European Union by Brown Advisory (Ireland) Limited, authorized and regulated by the Central Bank of Ireland. In the UK and other non-EU permissible jurisdictions, this factsheet is issued by Brown Advisory Limited, authorized and regulated by the Financial Conduct Authority. This is not an offer or an invitation to subscribe in the Fund and is by way of information only. Cancellation rights do not apply, and UK regulatory complaints and compensation arrangements may not apply. This is not intended as investment or financial advice. Investment decisions should not be made on the basis of this factsheet. A Prospectus is available for Brown Advisory Funds plc (the "Company") as well as a Supplement for the Fund and a Key Investor Information Document ("KIID") for each share class of the Fund. The Fund's Prospectus can be obtained by calling +44020 3301 8130 or visiting <https://www.brownadvisory.com/intl/ucits-legal-document-library> and is available in English. The KIIDs can be obtained from <https://www.brownadvisory.com/intl/kiid-library> and are available in one of the official languages of each of the EU Member States into which the Fund has been notified for marketing under the Directive 2009/65/EC (the UCITS Directive). In addition, a summary of investor rights is available from <https://www.brownadvisory.com/intl/ucits-legal-document-library>. The summary is available in English. The Fund is currently notified for marketing into a number of EU Member States under the UCITS Directive. The Company can terminate such notifications for any share class and/or the Fund at any time using the process contained in Article 93a of the UCITS Directive. Certain share classes of the Fund will also be available for subscription in jurisdictions where the Fund may be lawfully privately placed. Please contact Brown Advisory for more information. Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund. This and other important information is contained in the Prospectus, the Supplement, and the applicable KIIDs. Read these documents carefully before you invest.

The Fund is a sub-fund of the Company, an umbrella fund with segregated liability between sub-funds. The Fund is authorized by the Central Bank of Ireland as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 as may be amended, supplemented or consolidated from time to time (the "Regulations"). The Company has appointed Brown Advisory (Ireland) Limited as its UCITS management company which is authorized by the Central Bank of Ireland pursuant to the Regulations and the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations 2019, as amended. The investment manager of the Fund is Brown Advisory LLC. The distributor of the Fund is Brown Advisory LLC.

The Fund is a recognized collective investment scheme for the purposes of section 264 of the UK's Financial Services and Markets Act 2000.

The Fund will be available for subscription only in jurisdictions where they have been registered for distribution or may otherwise be lawfully privately placed. Only certain share classes may be registered or privately placed in some jurisdictions, please contact Brown Advisory for more information.

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The benchmark is the **MSCI World Net Index (USD)**, with the **MSCI World Value Index (USD)** as an appropriate secondary benchmark.

¹Margin of safety is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value. Even by utilizing a margin of safety strategy, an investor can still lose money.