

2020

LARGE-CAP SUSTAINABLE GROWTH STRATEGY

# IMPACT REPORT

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# LETTER OF INTRODUCTION FROM THE PORTFOLIO MANAGERS

At Brown Advisory, we are deeply committed to sustainable investing. Our firm managed more than \$16 billion\* in client assets under various sustainable investment mandates for individuals, families and institutions, as of Dec. 31, 2020. We firmly believe that there does not have to be a trade-off between strong performance and smart investments that help address society's trickiest sustainability challenges.

For a number of our sustainable investment strategies, we issue formal reports each year to keep clients informed about how those strategies are generating positive impact. Enclosed is our Impact Report for the Brown Advisory Large-Cap Sustainable Growth strategy.

The report includes a review of our ESG research and integration approach, and in particular how we use the concept of Sustainable Business Advantage (SBA) to identify compelling long-term investments. We also discuss the positive environmental and social outcomes being created by our portfolio companies, and report on our engagement and proxy voting activity during the year (both as an individual stakeholder and in concert with investor coalitions).

We are pleased to report continued progress and advancement of our sustainable investment initiatives at the firm. To support our growth, we added to our senior SI leadership team with Carey Taylor being named as the new head of the sustainable investing business at the firm. Other additions included Angela Wilson and Danny Trocchia as new ESG research analysts and Sarah Yang as a new sustainable investing business analyst. We published policy documents covering our institutional approach to sustainable investing and engagement, as well as a summary document that describes our firm's formal proxy voting policy. We remain focused on developing helpful client-focused reporting, with recent developments including impact reporting tools for our fixed income strategies and for our private client portfolios.

We thank our ESG research team for its contribution to this report and our work in general. The team works tirelessly to ensure that our investment decisions are informed by solid ESG data and clear viewpoints about how that data may affect a company's prospects. We thank our fundamental equity research colleagues, and all of our colleagues across the firm, for embracing sustainable investing principles so enthusiastically.

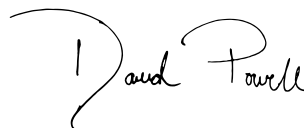
Most importantly, we are deeply grateful to our clients, who trust us as stewards of their capital and serve as our partners as we learn, innovate and improve over time. We reached our strategy's 10-year anniversary on Dec. 31, 2019, and the strategy's client base and its public profile (through profiles in Barron's, Forbes, the Wall Street Journal and other leading financial publications) grew meaningfully throughout 2020. While the additional attention is not unwelcome, we want to assure you that 100% of our focus has been, is, and always will be on our responsibilities to our clients.

We hope you find this year's report informative, and we welcome a continuing conversation with you about the work we are doing.

Sincerely,



**Karina Funk, CFA**  
Portfolio Manager



**David Powell, CFA**  
Portfolio Manager

\*Brown Advisory entities included are: Brown Advisory LLC, Brown Investment Advisory & Trust Company, Brown Advisory Ltd., and Brown Advisory Trust Company of Delaware, LLC.



### INVESTMENT PHILOSOPHY & RESEARCH APPROACH

In managing the Large-Cap Sustainable Growth strategy, we believe we can generate competitive, risk-adjusted returns over a full market cycle through a concentrated portfolio of companies with durable fundamental strengths, sustainable competitive advantages and compelling valuations. The purpose of this report is to talk about the impact being generated by our portfolio companies, so we will not spend a great deal of time discussing how we use fundamental research to identify good investment candidates with attractive return potential. But we want to be clear: Sustainable research is wholly integrated with fundamental due diligence in our process. For more information about our firm's overall approach to sustainable investing in our institutional strategies, please review Brown Advisory's [Sustainable Investment Policy](#).

We believe that some of the most attractive, durable business models available in the large-cap equity universe are those with sustainable drivers at their core. We developed the concept of **Sustainable Business Advantage, or SBA**, to clarify our thinking as we evaluate how sustainability drives a company's **revenue growth, cost savings or enhanced franchise value**. Every company we own in our portfolio must have identifiable SBA. Clean energy, health and wellness, and other sustainable trends are massive sources of revenue growth for many companies. Efficient operations that reduce the use of energy, water and other resources can lead to considerable cost savings. Companies that lead on environmental, social and governance (ESG) practices, or that help customers solve meaningful environmental or health challenges, are often able to greatly enhance their brand or franchise value. And in the end, we see revenue growth, cost savings and enhanced franchise value as the three most important levers that companies can pull to improve their long-term returns to shareholders. While we recognize that there are many ways to view sustainability, we rely on our thorough research to help us understand how a company's sustainability strategies can add to shareholder value through these specific SBA drivers.

We find that our portfolio companies—despite being selected entirely on their investment merits—are also clear generators of positive social and environmental impact in the vast majority of cases. Through their responsible business practices, the examples they set for their peers and the positive outcomes that result from their business activities, we believe that

our portfolio companies are producing positive changes in the economy and in society. This is not simply important as a statement of values; we see it as a financial imperative. Government and private capital alone cannot cover the massive costs of addressing global issues like climate change, and we believe that corporations will have to be a big part of that solution.

### OBJECTIVES & INVESTMENT PROCESS

The strategy's return objective is to outperform the Russell 1000® Growth Index over a full market cycle.

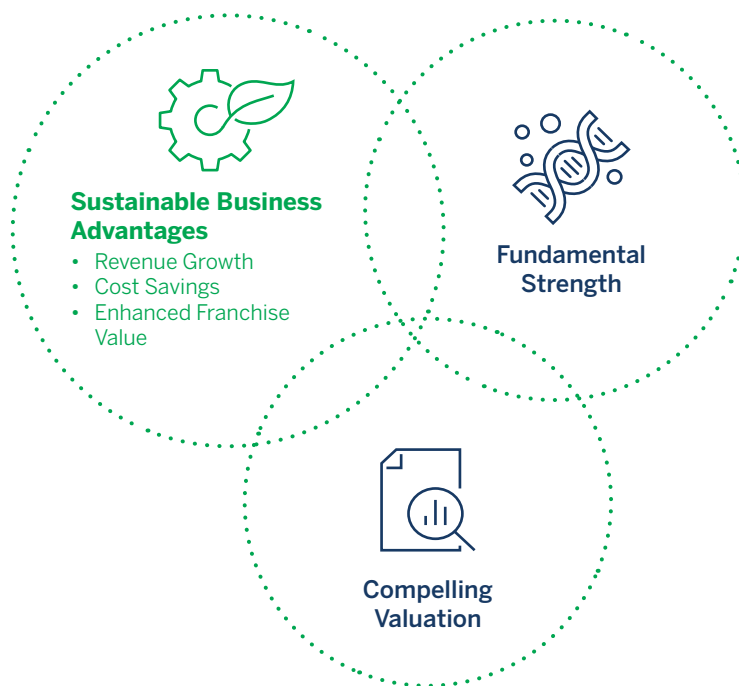
Conventional wisdom has long held that performance and impact goals are at odds with each other, but we have found our integrated approach to investing, in which we consider fundamental, ESG and impact criteria within a single research process, can enhance our returns by steering us to responsible, innovative and forward-thinking companies.

As noted in the diagram on page 5, we set a high bar for companies to clear before we will consider them for our portfolio. We need to be confident in both a fundamental thesis and a sustainability thesis before we invest in a company, and we need to ensure that we are buying at an attractive valuation level (which means that companies can—and do—remain on our buy list for months or even years before we reach an attractive entry point in terms of stock price). Within this process, we review the sustainability “bona fides” of a company in two distinct ways:

1. **ESG Risk Assessment.** This step serves as a value-added component of our effort to fully understand the risks embedded in our investments. Our ESG analysts identify potentially material ESG risks and assess the company's track record of managing these risks and its ability to do so in the future. This step may uncover labor issues, environmental liabilities or controversial business and governance practices.
2. **SBA Analysis.** Investing is as much about opportunity as it is about risk. We seek out companies that use sustainability drivers to add value for shareholders through revenue growth, cost savings or enhanced franchise value. The financial value of these sustainability drivers is not readily apparent to most investors, and we believe our proprietary SBA evaluations can provide us with an informational advantage.

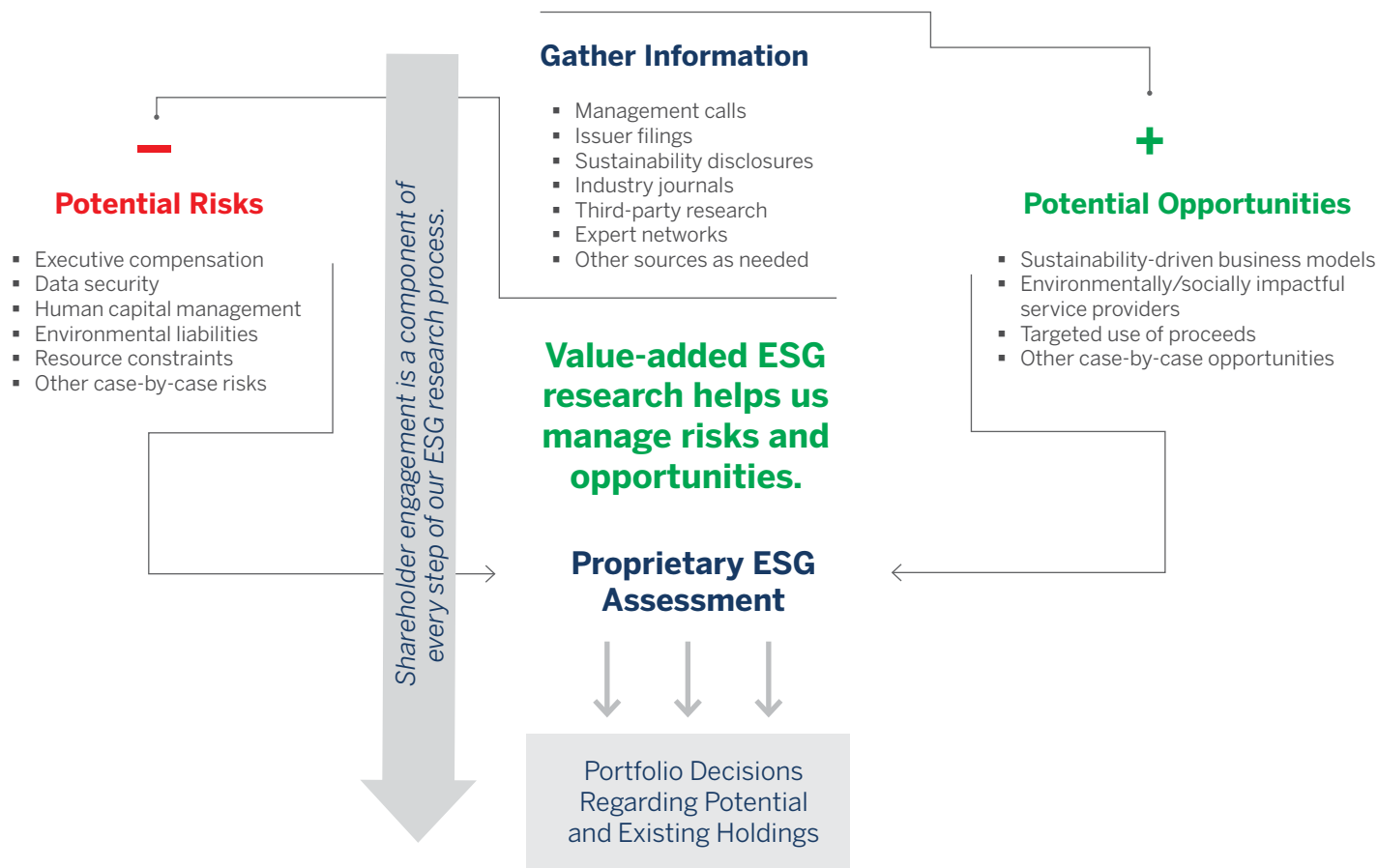
## INTEGRATING FUNDAMENTAL AND SUSTAINABLE RESEARCH

Our investment philosophy places equal emphasis on the fundamental (including ESG risk management), sustainable and valuation picture for any company we consider for the portfolio. We only invest when we are confident on all three criteria. Central to our approach is our search for companies with Sustainable Business Advantages (SBAs) that we believe can drive tangible, long-term business results.

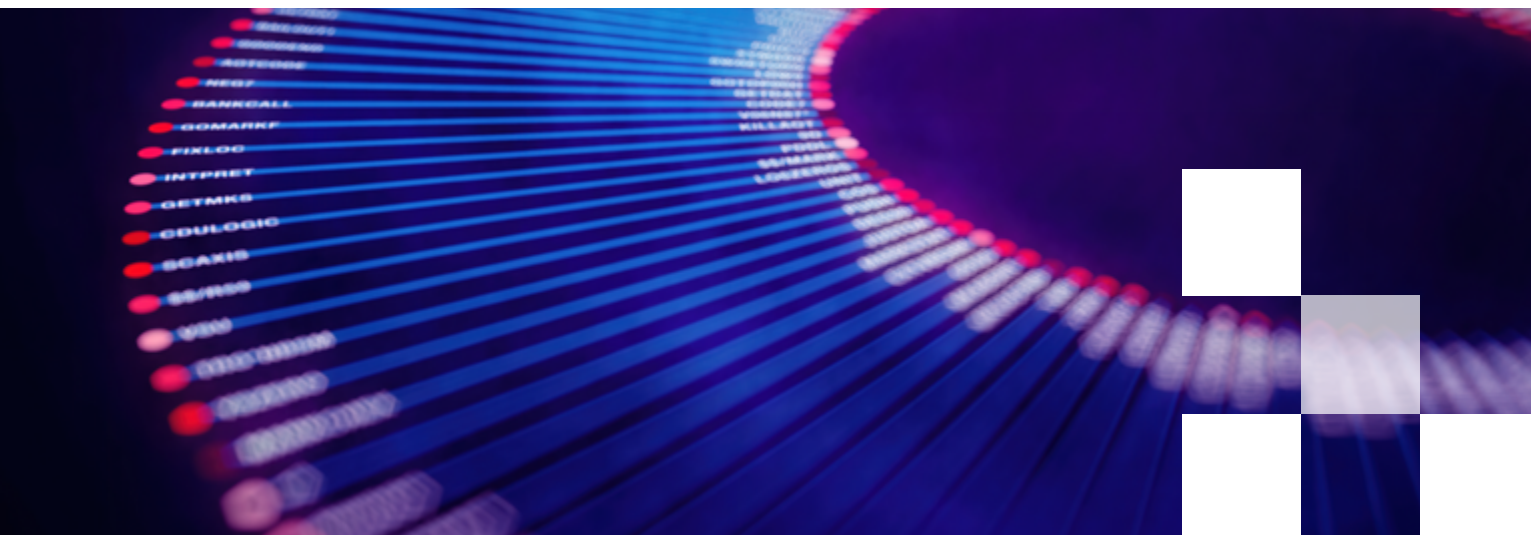


## OUR ESG RESEARCH APPROACH

Our ESG research team conducts deep due diligence using a combination of primary research and third-party data sources, in an effort to fully understand the sustainable risks and opportunities associated with a given investment. The process culminates with formal assessments that are leveraged for portfolio decisions as well as engagement dialogue with companies and other stakeholders. Our process provides portfolio managers with a broader and deeper set of positive and negative factors to weigh when deciding to buy, sell or hold an investment.







Our search for fundamentally strong companies with SBAs leads us to compelling investing ideas that span a wide range of business models and industry opportunities. We also seek to cover a wide range of impact themes across the portfolio, from energy and resource efficiency to economic and community development.

We think it is important to acknowledge that the companies in our universe are collectively responsible for a large proportion of the world's economic activity—and the impact, both positive and negative, that stems from that activity. Cloud computing requires silicon, power and cooling; industrial activity produces waste—there is no avoiding these facts. Our experience tells us that there are vast differences between the companies that are trying to build a sustainable future and those that are not. We believe that by investing in the former, we can build a portfolio that drives both attractive returns and positive contributions to society.

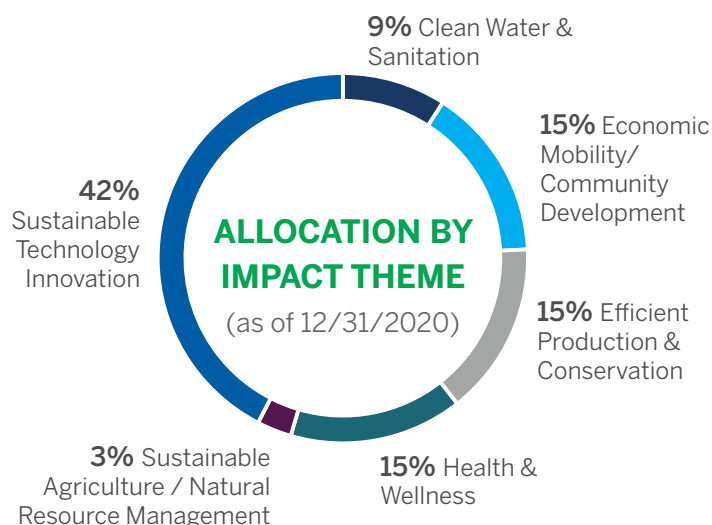
### DIVERSIFICATION BY IMPACT THEME

Breaking the portfolio out by different impact themes illustrates the variety of challenges and opportunities that our holdings address. As shown on page 7, we look at impact using a fairly straightforward segmentation into three main categories—environment, health and well-being, and economic development/social inclusion—each with several subcategories.

Categorizing each company's impact is not an exact science. Our research is based on both objective data and subjective analysis, and many companies produce impact on multiple fronts.

## DIVERSIFICATION BY IMPACT THEME

We categorize our holdings according to a series of impact themes to illustrate the variety of challenges and opportunities that our portfolio addresses. We do not target any particular impact mix, and we have found ample opportunity to invest in companies that address a wide range of social and environmental issues.



## EXPOSURE/IMPACT ON THE U.N. SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The Sustainable Development Goals were established in 2015 by the United Nations General Assembly, as a “blueprint to achieve a better and more sustainable future for all.”

The SDGs, as they are known, have become a common framework for categorizing projects and investments that seek to generate positive societal impact.

Our impact themes are broadly aligned with the U.N. Sustainable Development Goals. We choose to use our own categorization scheme for reporting our “impact theme allocation,” primarily because the U.N. categories are highly interdependent, and a single investment may produce impact in many different SDG categories. As such, we use a categorization scheme with fewer, more distinct categories that we feel are better suited for portfolio allocation reporting.

The mapping between our themes and the SDGs is depicted in the graphic to the right.

### Economic Development & Social Inclusion

Affordable housing							
Economic mobility & community development							
Education							
Diversity, inclusion, equality							

### Health & Well-Being

Health & wellness					
Clean water & sanitation					

### Environment

Sustainable technology innovation						
Efficient production & conservation						
Clean energy						
Sustainable agriculture/ natural resource management						

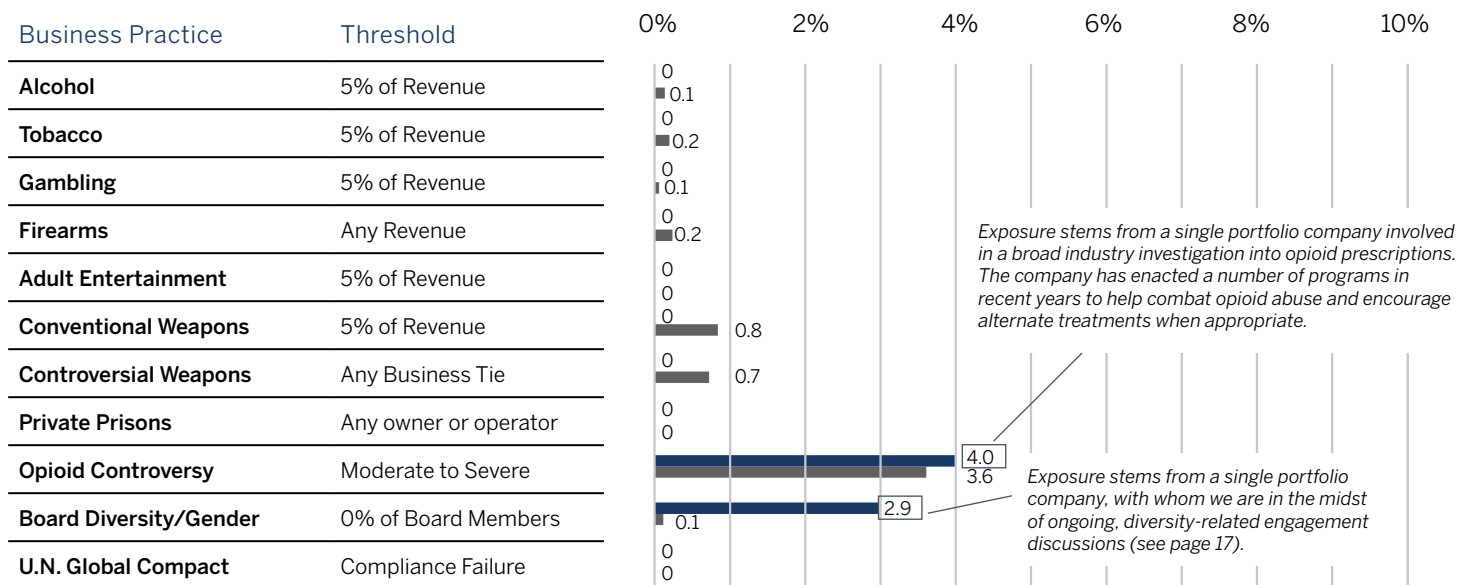
Source: Brown Advisory analysis. Numbers may not total to 100% due to rounding. Impact theme information is based on a Brown Advisory Large-Cap Sustainable Growth representative account and provided as supplemental information. Please see the last page of the report for a GIPS compliant presentation.

## ESG METRICS AT A GLANCE

As noted throughout this report, our investment approach in this strategy is a bottom-up process that seeks to identify compelling long-term investments. We do not seek to meet a set of top-down screens or other broad criteria, nor do we build our strategies or research processes specifically to earn high marks from external evaluators. That being said, the investment process historically has led to a portfolio with minimal exposure to many practices and business activities that are common targets of screens, as well as a portfolio characterized by lower carbon emissions, and our overall approach is well-regarded by respected bodies such as the PRI.

### BUSINESS PRACTICE EXPOSURES

Large-Cap Sustainable Growth Holdings as of 12/31/20



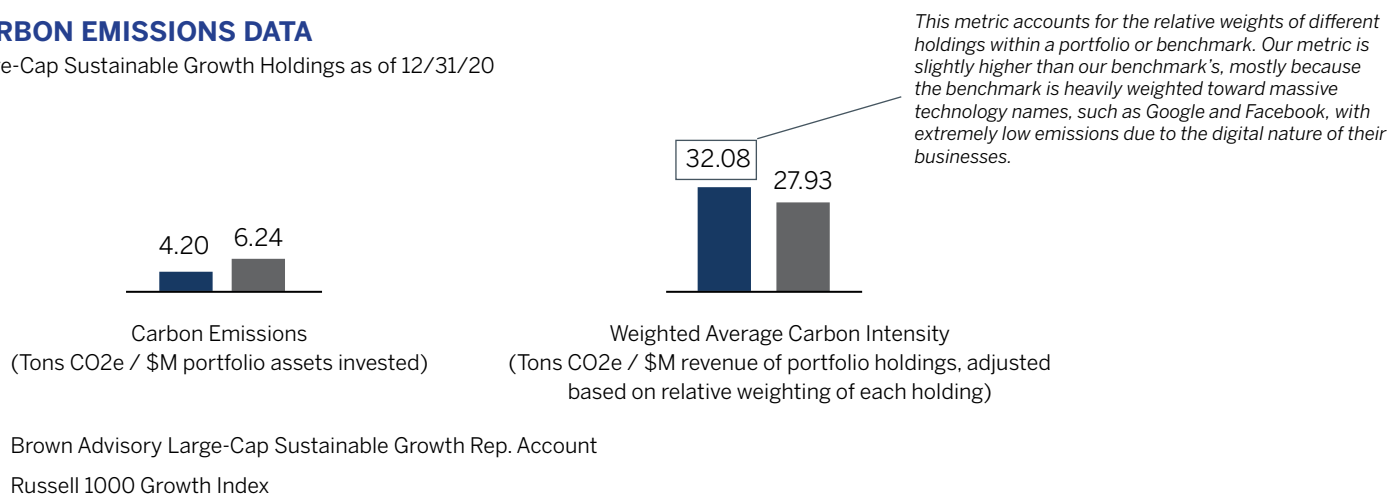
■ Brown Advisory Large-Cap Sustainable Growth Rep. Account

■ Russell 1000 Growth Index

Source: MSCI ESG Manager and Brown Advisory proprietary analysis. Data reflects portfolio holdings as of Dec. 31, 2020. Portfolio information is based on a Brown Advisory Large-Cap Sustainable Growth representative account and provided as supplemental information. Please see the end of the report for a GIPS compliant presentation. Please see the end of this report for a complete list of term and index definitions.

### CARBON EMISSIONS DATA

Large-Cap Sustainable Growth Holdings as of 12/31/20



Source: MSCI ESG Manager and Brown Advisory proprietary analysis. Data reflects portfolio holdings as of Dec. 31, 2020. Portfolio information is based on a Brown Advisory Large-Cap Sustainable Growth representative account and provided as supplemental information. Please see the end of the report for a GIPS compliant presentation. Please see the end of this report for a complete list of term and index definitions.



## MSCI PORTFOLIO METRICS (Data as of Dec. 31, 2020)

Criteria	Portfolio	Benchmark	Notes
<b>Overall ESG Rating</b>	<b>A</b>	<b>BBB</b>	Measures the resilience of a portfolio's holdings to long-term ESG risks, on a scale of AAA (strong leader) to CCC (laggard).
<b>ESG Quality Score</b>	<b>6.3</b>	<b>4.4</b>	A more granular version of the ESG Rating, on a scale of 0 (lowest) to 10 (highest). Based on the weighted average of individual holding scores.
<b>ESG Ratings Distribution</b>			Percentage of portfolio assets invested in companies with "green" (leader), "yellow" (average) and "orange" (laggard) ESG ratings from MSCI.

Source: Brown Advisory research, MSCI. Data reflects portfolio holdings as of Dec. 31, 2020. Portfolio information is based on a Brown Advisory Large-Cap Sustainable Growth representative account and provided as supplemental information. Please see the last page of the report for a GIPS compliant presentation.

## 2020 PRI ASSESSMENT

Brown Advisory has been a signatory to the PRI (Principles for Responsible Investment) since 2014; PRI is a global network of investors representing more than \$103 trillion as of June 30, 2020. Each year, PRI signatories complete a rigorous disclosure of sustainable investing practices; these disclosures, and the assessments of those disclosures by PRI's evaluation staff, are widely followed by investment decision makers around the world.

Our 2020 PRI Scorecard is provided at right. We received "A" grades and met or exceeded industry median scores in every category. We received the highest attainable score in the Strategy and Governance category; we see this as a strong external validation of our firm's and our senior leadership's commitment to sustainable investing.

We also received the highest attainable score in the area of engagement ("Listed Equity - Active Ownership"). In 2019, our only "B" grade was in this category, and feedback from PRI was helpful as we focused on enhancing our engagement and proxy voting processes (for more information, see our Engagement and Proxy Voting policies and 2020 reports on our website). We continued to engage actively with companies in 2020 as we have for many years.

Our full 2020 PRI Transparency Report: [https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/\(Merged\)\\_Public\\_Transparency\\_Report\\_Brown%20Advisory\\_2020.pdf](https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Brown%20Advisory_2020.pdf).

Module Name	Our 2020 Score
01. Strategy & Governance	<b>A+</b>
<b>Indirect - Manager Sel., App. &amp; Mon</b>	
02. Listed Equity	<b>A</b>
03. Fixed Income - SSA	<b>A</b>
04. Fixed Income - Corporate Financial	<b>A</b>
05. Fixed Income - Corporate Non-Financial	<b>A</b>
06. Fixed Income - Securitized	<b>A</b>
07. Private Equity	<b>A</b>
<b>Direct &amp; Active Ownership Modules</b>	
10. Listed Equity - Incorporation	<b>A</b>
11. Listed Equity - Active Ownership	<b>A+</b>
12. Fixed Income - SSA	<b>A</b>
13. Fixed Income - Corporate Financial	<b>A</b>
14. Fixed Income - Corporate Non-Financial	<b>A</b>
15. Fixed Income - Securitized	<b>A</b>

Source: PRI. For assessment methodology visit [www.unpri.org/signatories/about-pri-assessment](http://www.unpri.org/signatories/about-pri-assessment).

IMPACT CASE STUDIES FROM THE PORTFOLIO

Autodesk

SECTOR:	IMPACT THEME:	SBA:
Information Technology	Sustainable Tech Innovation	Revenue Growth, Enhanced Franchise Value



Autodesk enables its customers to design, visualize and simulate buildings and products in a more energy and resource-efficient manner.

Addressing climate change while meeting the needs of a growing and urbanizing global population is a huge design challenge. The architecture, engineering, construction, and manufacturing sectors account for a massive proportion of the world’s carbon emissions. According to McKinsey, construction sites are made up of 30% waste during the execution phase, and 80% of a product’s environmental impact is determined by decisions during the design phase.

Autodesk’s solutions are well-tuned to address the challenge of sustainable design. The company has long been a leader in 3D-enabled design/modeling software, which is essential for architects and designers seeking to build sustainability into their designs. For example, with a 3D model of a building, such as those produced with Autodesk’s Building Information Modeling (BIM) solutions, architects can model how much energy it takes to heat/cool the building, the effect of natural lighting, and other sustainability factors; a flat drawing does not allow for this. Similarly, its product design and manufacturing solutions help customers reduce product material use, improve energy efficiency of end products, and manage factory processes.

EC3

The Embodied Carbon Calculator in Construction—which provides data on the implied emissions of materials used in construction—is now integrated in Autodesk’s BIM software solutions.

75%

Percentage of Autodesk customers that require sustainability design features in their modeling software, according to an Autodesk/Deloitte study.

Danaher

SECTOR:	IMPACT THEME:	SBA:
Health Care	Health and Well Being	Revenue Growth, Cost Savings



Danaher’s businesses are developing advanced diagnostic tools, driving life-saving scientific research and helping ensure the safety of global food and water supplies. Danaher’s strategy for growth seeks to deliver breakthrough innovations that serve diverse populations around the world, and developing markets continue to offer significant opportunity for impact.

It provides water testing and treatment solutions through its ChemTreat, Hach and Trojan Technology businesses. Through Pall Corporation, a business that Danaher acquired in 2015 (which was also a former holding in our portfolio), the company offers a wide range of filtration and purification solutions. Finally, its diagnostics businesses provides a wide array of data access and management solutions that help health care professionals deliver better patient care.

Danaher was one of the first companies in the U.S. to implement “lean” manufacturing, and operates under the philosophy that maximum efficiency and productivity lead to cost savings and higher quality control. This serves to minimize operating costs, material waste and environmental impact.

We note that Danaher historically did not provide detailed reporting of sustainability metrics, but after engagement with ESG-minded investors in recent years (including us), it is now producing sustainability reports and improving its transparency with regard to metrics and long-term goal setting.

15%

Newly established 2024 goals include 15% reductions in energy consumption, CO2 emissions (normalized to continuing revenue) and waste sent to landfills or incineration.

30 million

Patient diagnostic tests per month being delivered by Danaher’s Beckman Coulter business for detecting antibodies to COVID-19.

Source: Brown Advisory research, Autodesk and Danaher. Industries identified for each company are based on the GICS sector classification system. 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. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Large-Cap Sustainable Growth representative account and provided as supplemental information. Please see the last page of the report for a GIPS compliant presentation.

## Ecolab

### SECTOR:

Industrials

### IMPACT THEME:

Clean Water and Sanitation

### SBA:

Revenue Growth

## Nike

### SECTOR:

Consumer Discretionary

### IMPACT THEME:

Efficient Production and Conservation

### SBA:

Cost Savings, Enhanced Franchise Value



Sustainability is core to Ecolab's business strategy. The company delivers a comprehensive set of water, hygiene, and energy technologies and services to help companies minimize environmental and social impacts while increasing their bottom lines. In 2019, Ecolab helped customers conserve more than 206 billion gallons of water, save 28 trillion BTUs of energy, and safety protect more than 36% of the world's packaged food.

Ecolab's solutions also create sustainable value in less obvious ways. For example, its Hand Hygiene Compliance Monitoring System seeks to increase hand hygiene in patient settings using digital solutions. Hand hygiene is a critical issue; one in 31 patients in the U.S. have a hospital-acquired infection (HAI), and HAIs cause approximately 75,000 deaths in the U.S. each year, according to the CDC. Ecolab's program has been extremely successful in reducing HAIs in patient settings, leading to millions of dollars in savings (as well as increased opportunity for revenue by freeing up patient beds).

Leveraging its own expertise and technologies, Ecolab continues to improve upon its own operations, resulting in cost improvements associated with increased energy and water efficiencies. By 2030, Ecolab aims to conserve 300 billion gallons of water annually by reducing water consumption both with its own and its customers' operations—the equivalent of drinking water for 1 billion people.

Nike's long-term sustainability efforts have grown into a competitive advantage for the company. Its lean manufacturing practices and sustainability-focused product innovations have lowered its cost of doing business over time. The company's footwear modernization teams have rolled out several new technologies that offer energy reductions, including an improved midsole manufacturing process, a new assembly oven, and material cutting technologies that have reduced energy use by approximately 5%. The company's Flyknit technology, an innovative manufacturing technique where yarns and fabric variations are precisely engineered to create lightweight "uppers" in footwear (the "upper" is the primary component of the shoe that wraps around the wearer's foot). The company reports that its Flyknit shoes have added \$2 billion in revenue as of the end of 2019, while using less material and creating almost no waste. The company is rolling out similarly innovative technology for apparel manufacturing.

Nike's leadership in supplier transparency in recent years—it was the first global apparel company to release the complete list of its suppliers' names and locations—forced the rest of the industry to follow suit and has set a standard for supply chain disclosure. Labor treatments remain a risk for a company with such a massive global supply chain, and we carefully monitor any issues that arise as well as Nike's response to those issues.

**1.5 mm  
metric  
tons**

*Greenhouse gas emissions avoided by Ecolab's customers in 2019, thanks to its full range of energy, water, waste and hygiene solutions.*

**27%**

*Percentage of energy obtained from renewable sources, up from 14% in 2015.*

**3.5  
billion**

*Surgical instruments cleaned and sterilized by Ecolab products and services in 2019.*

**100,000**

*Community coaches trained, with the help of partners, to create positive sport experiences for kids.*

Source: Brown Advisory research, Ecolab and Nike. Industries identified for each company are based on the GICS sector classification system. 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. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Large-Cap Sustainable Growth representative account and provided as supplemental information. Please see the last page of the report for a GIPS compliant presentation.



We regularly engage with the companies whose securities we hold in the Large-Cap Sustainable Growth portfolio, and with other stakeholders with an interest in those companies. Sometimes our goal in these engagements is to inform our investment thesis, and other times we seek to elicit a specific stakeholder response to an idea, suggestion, or perceived risk.

Engagement has always played an important role in our fundamental due diligence. We believe that good fiduciaries and stewards of client capital have a responsibility to maintain consistent dialogue with the companies and bond issuers in which they invest. We provide a closer look at Brown Advisory's approach to engagement in our [Engagement Policy Statement](#), and offer information about our firmwide engagement activity in our [2020 Engagement Summary Report](#), both of which are available on our website. Here, we will discuss some of the issues we have been prioritizing in recent years and offer a few examples of recent engagements.

### ENGAGEMENT APPROACHES

**ESG Due Diligence:** We conduct ongoing discussions with companies to inform our investment research. These conversations are a standard component of our ESG research and contribute to portfolio decisions and ongoing monitoring of holdings.

**Impact:** We collaborate with companies/issuers and industry groups to advocate for improved ESG practices, and continued implementation of existing ESG-related initiatives. We note that proxy voting, especially on ESG-related shareholder proposals, is an important signaling tool in these engagements.

**Advisory:** We are often asked by companies for feedback and informal advice on the development, improvement, and/or communication of their ESG efforts. To be clear, we do not act in any formal capacity as an advisor or consultant on these matters, we simply act as a sounding board.

**Collaboration:** We partner with investor groups and NGOs to help advance salient issues.

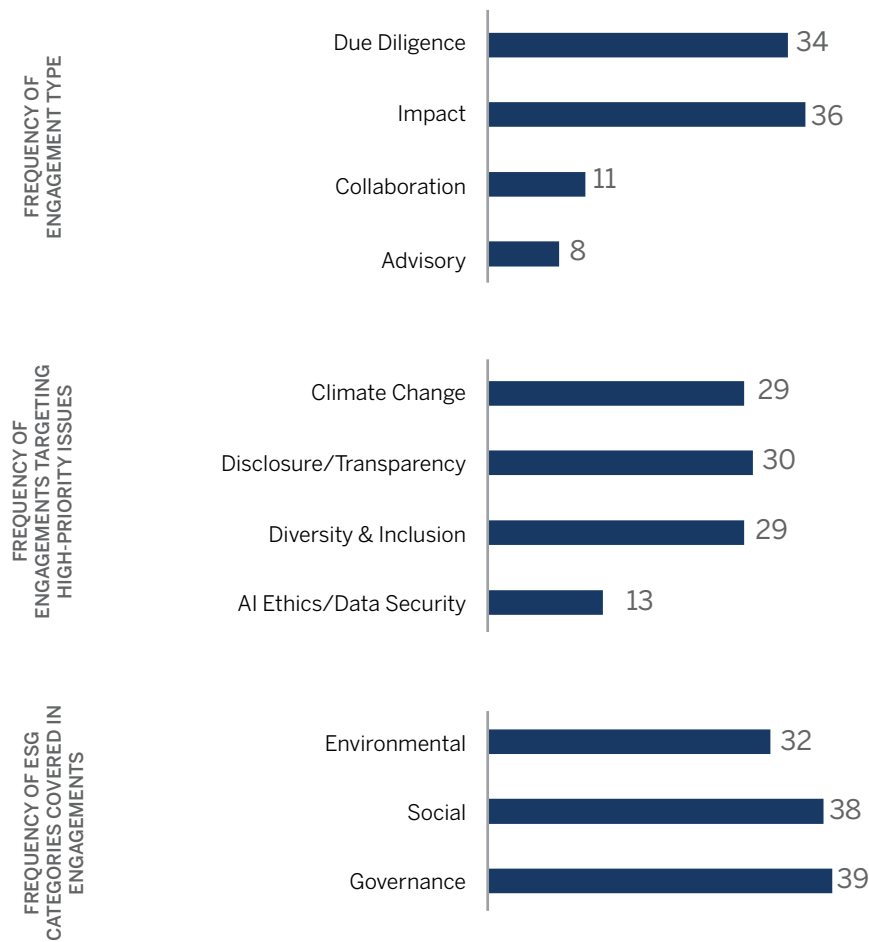
### ISSUE PRIORITIZATION

Our engagements generally flow from our overall “bottom-up” orientation to investing—we seek to engage with each company on the specific risks and opportunities that we consider to be most relevant and material in each situation. However, we also strive to engage at a strategic level with many companies, on a common set of high-priority topics that have wide-ranging relevance. We prioritize based on several factors, including saliency (does the issue transcend materiality, with sweeping implications for all stakeholders), exposure (does the issue pose an outsized risk to our portfolio) and client interest/demand, as well as our belief in our ability to achieve meaningful progress on the issue, and whether it is an issue that multiple companies are bringing up with us proactively.

In 2020, our four high-priority engagement topics were **climate change; general disclosure; diversity and inclusion; and, AI ethics/data security**. On pages 16-17, we provide a summary of our activity in 2020 related to each of these priority issue areas, including examples of engagements and notable proxy votes in each area.



## 2020 ENGAGEMENT ACTIVITY BY THE NUMBERS



**49** engagements in 2020 with existing portfolio companies, potential holdings and relevant stakeholders





Proxy voting is the process by which shareholders vote on proposals submitted for consideration at a company's annual general meeting. Most proposals are submitted by management, and votes on **management proposals** are binding—the equivalent of a binding referendum vote on a ballot question in a statewide election. Additionally, a growing number of **shareholder proposals** are submitted each year for consideration at annual general meetings. These votes are nonbinding, but the vote totals on these proposals can nonetheless influence corporate behavior. (For this reason, we believe that the rights of shareholders with regard to these resolutions should be protected by regulators to ensure that investors' perspectives can always be heard in a public forum.)

We believe that companies can benefit by considering forward-thinking social and environmental proposals. We generally support ESG-related shareholder proposals that we consider likely to improve shareholder value over time. On the next page we report on our voting record in 2020, in relation to both our policy recommendations, and the votes of company management; our case-by-case approach results in voting that largely follows the recommendations of our policy but that also diverges on occasion. There are various factors that guide our case-by-case voting decisions, many of them related to materiality; in recent years, and

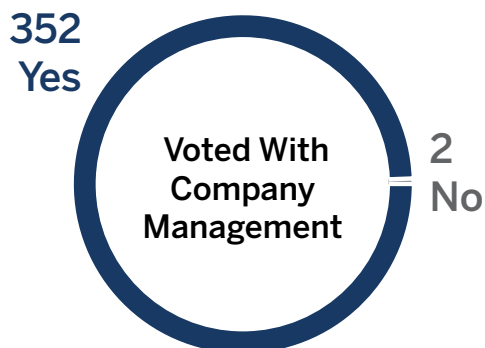
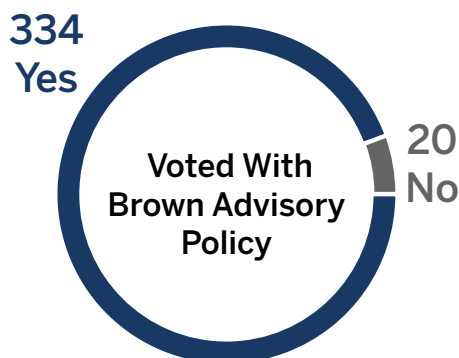
especially in 2020, the SEC and Department of Labor focused on proxy voting and the importance of fiduciaries to only consider financially material factors when engaging in proxy voting. This is aligned with Brown Advisory's view on the importance of material ESG considerations from a performance-first perspective, and is one of many reasons why seek to use sustainability as a tool to improve our investment decision making.

Proxy voting for our institutional investment strategies is overseen by a Proxy Voting Committee made up of equity research analysts, ESG research analysts, trading operations team members, the Head of Sustainable Investing, our Director of Equity Research and our General Counsel (among others). The Committee is responsible for overseeing the proxy voting process, but responsibility for casting votes, however, rests with our investment and ESG research teams and, ultimately, with the portfolio managers for each Brown Advisory equity investment strategy. For more information about our proxy voting process, please refer to our publication, "[Proxy Voting at Brown Advisory: Philosophy and Process](#)," available on our website.



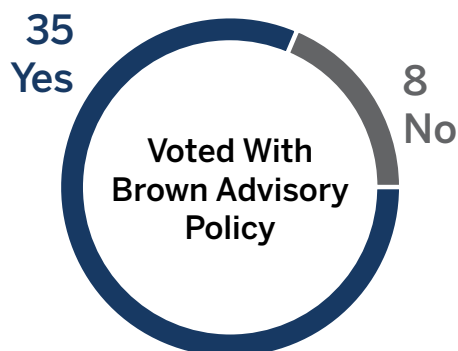
## 2020 PROXY VOTING BY THE NUMBERS

**354 Proposals  
From Management**



**43 Proposals  
From Shareholders**

**Topical Breakdown:**  
*9 Environmental/Social*  
*16 Governance-Specific*  
*18 Social-Specific*



Source: Brown Advisory. 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. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients.

In 2020, there were two issuer proxy votes that were part of a split vote on behalf of Brown Advisory. More specifically, Brown Advisory Large Cap Sustainable Growth and Brown Advisory Large Cap Growth were both holders of the issuers; however, the portfolio managers of each strategy had a different perspective regarding the vote and wanted to vote differently. Brown Advisory's approach (as described in the firm's proxy policy statement) is to aggregate all of Brown Advisory's shares in the issuers across all strategies and split the votes proportionally. The votes are ultimately voted in the aggregate on the behalf of Brown Advisory, the votes are not subsequently voted or allocated by strategy. Consequently, some shares held in Brown Advisory Large Cap Sustainable Growth voted FOR and some shares held in Brown Advisory Large Cap Sustainable Growth voted AGAINST, even though the portfolio managers' decision was to vote FOR. The data provided above includes the votes in the strategy that reflects the portfolio manager's decision. The dashboard provided by ISS, the proxy voting vendor utilized by Brown Advisory, which can be found on the Brown Advisory website, reflects all shares voted by the issuer.

## SUMMARY OF ENGAGEMENT/VOTING ACTIVITY ON HIGH-PRIORITY ISSUES

### Climate Change

Total Engagements in Portfolio in 2020	29
Total Number of Shareholder Proposals in Portfolio in 2020	4
Voted With Policy	3
Voted In Favor	4

#### ENGAGEMENT EXAMPLE

##### *Ongoing engagement with leading U.S. healthcare company*

We have been long-term holders of this company, and identified it as a company with a strong SBA profile—well before the company began to focus intentionally on sustainability, it was benefiting from programs and strategies that were inherently sustainable. The company had not traditionally reported on climate metrics nor had it set goals such as GHG emissions targets. We have had several conversations over the years with management about goal-setting and reporting.

**Outcome:** In its latest sustainability report, the company established formal and ambitious five-year targets for reducing energy consumption, GHG emissions and other climate-related reductions.

**PROXY VOTING EXAMPLE:** We diverged from policy recommendations to support a proposal for this company to report on reducing environmental and health harms to communities of color.

### Disclosure/ Transparency

Total Number of Engagements with companies in 2020	30
Total Number of Shareholder Proposals in Portfolio in 2020	22
Voted With Policy	16
Voted In Favor	17

#### ENGAGEMENT EXAMPLE

##### *Ongoing engagement with U.S.-based materials company*

In recent years, we engaged numerous times with a leading U.S. materials company. Our engagement included ESG-focused calls with investor relations staff and direct conversations with senior leaders at the company including the CEO. The trust built from these conversations led to the company asking us for input as it worked to produce a new, more robust corporate sustainability report. Among other things, we suggested that the report should seek to quantify the revenue growth and cost savings generated by the company from its sustainable products and operations.

**Outcome:** We were pleased to see that the company incorporated this, and other suggestions we made, in its 2020 report.

**PROXY VOTING EXAMPLE:** We conformed with policy recommendations to support a proposal asking a leading retailer to report on reducing its chemical footprint.

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## Diversity & Inclusion

Total Engagements in Portfolio in 2020	<b>29</b>
Total Number of Shareholder Proposals in Portfolio in 2020	<b>14</b>
Voted With Policy	<b>10</b>
Voted In Favor	<b>11</b>

### ENGAGEMENT EXAMPLE

#### *Ongoing engagement with leading semiconductor company*

**Engagement:** We are in ongoing dialogue with a leading semiconductor manufacturer regarding lack of diversity on its board and executive team. As part of our D&I engagement work, we are generating analysis (to supplement existing research) showing that diversity, particularly at the board level, can be a competitive advantage for companies. Our research has strengthened our commitment to encourage companies to pursue defined DEI goals.

**Outcome:** While the company has been receptive, it has yet to act to improve the diversity of its board or leadership team. If it does not take meaningful action in 2021, we will escalate engagement tactics.

**PROXY VOTING EXAMPLE:** We diverged from policy recommendations to support a proposal asking a large technology firm to report on gender/racial pay gaps.

## AI Ethics/Data Security

Total Engagements in Portfolio in 2020	<b>13</b>
Total Number of Shareholder Proposals in Portfolio in 2020	<b>2</b>
Voted With Policy	<b>2</b>
Voted In Favor	<b>2</b>

### ENGAGEMENT EXAMPLE

#### *Ongoing engagement with several global technology leaders*

We are in ongoing talks with several first-movers in the AI technology space, whose decisions have broad implications for how AI and data privacy issues evolve. These conversations have helped us sharpen our expectations regarding responsible AI best practices.

**Outcome:** Past discussions have covered facial recognition software and potential negative impacts on communities of color. This issue became a flashpoint in 2020, after strong societal backlash to police violence in the U.S. Many companies announced a pause in selling this technology to police departments until a national law grounded in human rights governs its use; shareholder engagement was not the only driver of the decisions to pause sales, but the decisions were in line with views expressed by us and other investors.

**PROXY VOTING EXAMPLE:** We supported proposals asking leading facial recognition software providers to report on potential human rights impacts of those systems.

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## INDUSTRY CONTRIBUTION AND COLLABORATION

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Our work does not happen inside of a silo. We rely on support from and collaboration with a broad range of Brown Advisory colleagues and industry partners who help us build and manage our portfolio.

Our ESG research team develops and maintains ESG research and analysis spanning our firm's entire equity and fixed income coverage universe. Its members integrate and partner in various ways with the working groups and management teams that drive the investment decisions in individual Brown Advisory investment strategies. Their work is further informed by many other contributors, including collaborative work with our firm's fundamental research teams as well as input and insight from our Sustainable Investing Advisory Board. Our sustainable investing initiative is strongly supported by our CEO and senior executive staff, who are deeply engaged in driving sustainable principles throughout the firm's investment offerings.

We benefit greatly from our ability to participate in broader industry efforts sponsored by leading nonprofits, and we try to do our part to contribute our thinking back to the sustainable investing community.

### Recent Articles:

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#### [COVID-19 Through an ESG Investing Lens](#)

Emily Dwyer, Lisa Abraham

*A summary of observations regarding COVID-19's impact on our portfolio investments, and examples of how several companies and bond issuers responded in the early months of the pandemic.*

#### [10 Lessons Learned After 10 Years](#)

Karina Funk, David Powell

*The LCSG portfolio managers look back and think ahead on the occasion of the strategy's 10-year anniversary.*

#### [Oil and Water: Fossil Fuel Divestment in Sustainable Bond Portfolios](#)

Amy Hauter, Tom Graff

*A discussion about several factors to review when considering divestment, and a look at the multiple ways in which we express climate alignment in our portfolios.*

#### [The Materiality of the "S" in ESG](#)

Katherine Kroll

*A look at why we believe that social factors can be every bit as salient as environmental or governance factors when it comes to investment decisions, with a focus on how we incorporate matters of racial justice into our research and engagement processes.*

#### [How Municipal Bonds Influence Justice and Equality](#)

Katherine Lee, Lisa Abraham

*A review of how we think about justice matters in building our sustainable fixed income portfolios, focusing on some of the progressive trends that are gaining traction among municipal issuers to encourage and enforce fair and equal distribution of municipal resources and positive impact.*

### Recent Reports:

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#### [Global Leaders ESG Transparency Report](#)

#### [Sustainable Core Fixed Income Impact Report](#)

#### [Tax-Exempt Sustainable Fixed Income Impact Report](#)

#### [Brown Advisory Sustainability Report](#)

#### [Brown Advisory Summary Engagement Report](#)



## Industry Initiatives/Memberships



Long-term member and supporter.



Signatory since 2014. Our disclosure reports and summary assessments of our firm's progress are available upon request.



Long-term signatory and supporter. Assisted in several 2020 CDP initiatives.



Long-term member and conference supporter.



Long-term conference supporter and collaborator.



Early signatory and active contributor to the development of this comprehensive framework for labeled impact bond issuance.

(WISE: Women Investing for a Sustainable Economy)



Members of the Boston, NYC and Washington, D.C. chapters; hosted 3 WISE events in 2019.



Founding member, long-term supporter.



Long-term member, supporter and event co-host/sponsor.



New member in 2019.



Formal supporter in 2020 after informally supporting and promoting the TCFD framework for a number of years.



Signatory to this investor-led initiative to persuade major corporate GHG emitters to take action on climate change.



New member as of 2020; joined ICCR members to engage collaboratively with companies.



Supporters as of 2020 of this organization which is helping us to refine our engagement and reporting practices.

# Brown Advisory U.S. Large-Cap Sustainable Growth 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)
2019	36.2	35.5	36.4	12.4	13.1	5.3	0.3	2,379	42,426
2018	5.4	4.8	-1.5	11.6	12.1	41	0.2	1,049	30,529
2017	29.1	28.4	30.2	10.6	10.5	32	0.2	762	33,155
2016	6.6	6.0	7.1	11.5	11.2	32	0.1	503	30,417
2015	13.7	13.1	5.7	11.1	10.7	23	0.3	405	43,746
2014	7.1	6.5	13.1	9.9	9.6	25	0.1	303	44,772
2013	34.5	33.7	33.5	12.1	15.5	24	0.2	288	40,739
2012	16.5	15.9	15.3	15.7	15.7	22	0.3	211	26,794
2011	5.4	5.0	2.6	NA	NA	21	0.3	37	19,962
2010	23.5	23.1	16.7	NA	NA	18	N/A	13	16,859

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, 2018. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

- \*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 Large-Cap Sustainable Growth Composite (the Composite) includes all discretionary portfolios invested in the Sustainable Large Cap Strategy. The strategy invests primarily in large market capitalization companies with financially and environmentally sustainable business models. The minimum account market value required for Composite inclusion is \$1.5 million. Prior to 2012, the minimum was \$100,000.
- 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.
- Prior to March 31, 2013, the strategy was named Large-Cap Sustainability. Prior to December 31, 2011, the strategy was named Winslow Green Large Cap. No changes have been made to the strategy since inception.
- The Composite was created in 2010. The Composite inception date is January 1, 2010.
- The benchmark is the Russell 1000® Growth Index. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 1000® Growth index and 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 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-fee performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). 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: 0.80% on the first \$10 million; 0.65% on the next \$15 million; 0.50% on the next \$25 million; and 0.40% on the balance over \$50 million. 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 3 year annualized standard deviation is not presented as of December 31, 2010 and December 31, 2011 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, policies for valuing portfolios, calculating performance, and preparing compliant presentations 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.

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance and you may not get back the amount invested.

ESG considerations that are material will vary by investment style, sector/industry, market trends and client objectives. Our strategies seek to identify companies that we believe may have desirable ESG outcomes, but investors may differ in their views of what constitutes positive or negative ESG outcomes. As a result, our strategies may invest in companies that do not reflect the beliefs and values of any particular investor. Our strategies may also invest in companies that would otherwise be screened out of other ESG oriented portfolios. Security selection will be impacted by the combined focus on ESG assessments and forecasts of return and risk. Our strategies intend to invest in companies with measurable ESG outcomes, as determined by Brown Advisory, and seek 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.

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Diversification does not assure a profit, nor does it protect against a loss in a declining market. It is not possible to invest directly in an index. Holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

**The Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

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