

# GLOBAL LEADERS STRATEGY

Reporting on the impact of our investment decisions

2022



# LETTER OF INTRODUCTION FROM THE PORTFOLIO MANAGERS

Welcome to our 2022 Impact report. We aim to improve the report every year and have added sections on our significant votes and most impactful ESG engagements. Given the priority we place on quality in the portfolio, there are very few items in either category but we believe that it is nonetheless useful to see. Almost all our companies are now working towards adoption of science-based targets, and we have engaged with the remaining ones on their pathway. The portfolio's carbon intensity is quite low, as detailed in last year's report and this one.

We are long-term investors with our capital invested alongside yours. Our average investment is held for approximately eight years. We have a long-term investment horizon that requires us to incorporate all risks and opportunities—both ESG and fundamental—into our holistic research in order to maximize long-term investment returns. The longer the timeframe, the more that ESG matters, in our view.

All our research starts with the customer – what problem the company is solving and why this will create value over the next five years. For us, it makes good business sense to do good and make a social statement. The best companies we see are using either environmental or social outcomes for customers to compound their competitive advantages and to drive business outcomes – we call these their Sustainable Business Advantage (SBA) drivers. In our view, the SBA drivers differentiate the companies we invest in from their rivals and their clients often pay more for their products as they are creating intangible value beyond the input costs. This is not virtue signalling – money talks! One of our favourite quotes from customer surveys is “it is not cheap but it's good value.” This gets to the heart of how SBA drivers can lead to long-term returns and we can see it in the numbers. The corollary of ESG risks is obvious.

We remain enthusiastic about the increasing adoption, from the companies in our portfolio, of Science-based Targets (SBTs) and use of sustainability policies to work towards solutions to current environmental and climate challenges. Our strategy's primary goal is first and foremost to deliver investment returns and this is our guiding fiduciary responsibility – but not at any cost to earth and our societies. We are deeply committed to sustainable investing. As described above, we seek companies that use sustainability in a positive way to drive business outcomes and identify them

using our proprietary SBA framework. In our view, this results in a win for customers, a win for the environment and society and ultimately, a win for shareholders. We also consider ESG risk and any potential downside to our investments from negative actions.

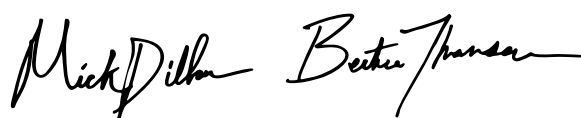
We would like to take this opportunity to address any concerns about the recent “ESG backlash” we have witnessed in some geographies – this is an understandable concern. As global investors, we are very conscious of the range of views on many topics, including ESG, and how these differ across countries, regions and continents. We believe our common sense approach to investing, alongside thinking holistically about sustainable opportunities and ESG risks, sets us up for long-term investment performance. We have written in detail in the past about our thinking on this subject and very little has changed. As a concentrated global investment strategy we set very high standards for our investments – afterall, we have the widest possible universe to select from and can afford to be picky. While there is some “noise” on ESG in some markets, we don't believe that lowering our standards as a result of this is a good idea.

We are very fortunate to benefit from Brown Advisory's in-house Sustainable Investing team. They helped us define SBA and support us with primary ESG research. The good news is that this team continues to grow. Building this expertise internally gives us huge value add – just as we would never outsource investment selection to a sell-side broker, we don't outsource ESG research or ratings to third party providers either. Afterall, a large part of what we do is subjective – alpha generation does not come from a template.

This team also challenges us to think through new developments in the world of sustainability – a constantly evolving space. We have worked with the team to integrate additional concepts into our work, such as Net Zero Asset Managers (NZAM) targets and introductory work on evaluating Scope 3 emissions. We thank them and the entire equity research team at Brown Advisory for their efforts!

Thanks for taking the time to read this report. We hope you enjoy it and look forward to any feedback that will help us improve it going forward.

Mick, Bertie and the Global Leaders Team



# THE GLOBAL LEADERS TEAM



**Mick Dillon, CFA**  
*Portfolio Manager*



**Bertie Thomson, CFA**  
*Portfolio Manager*

This strategy is supported by a working group of nine analysts (eight fundamental, one dedicated to ESG) who cover various economic sectors\*. In addition to the nine analysts in the working group, the portfolio managers work closely with a broader team of in-house fundamental, ESG and investigative analysts.

Brown Advisory’s ESG equity research plays an important role in nearly all aspects of the Global Leaders team’s work. ESG analysts concentrate on performing bottom-up research on our investments, and developing and refining the firm’s ESG research tools.

\*As at 06.30.2023

## TABLE OF CONTENTS

Investment Philosophy and Process	4
Portfolio Impact at a Glance	6
Spotlight: Impact in the Financial Sector	7
Engagement	9
Proxy Voting	12
Impact Themes/ U.N. Sustainable Development Goals	14
PRI Assessment/ Firmwide Sustainability Reporting	15

## THE STRATEGY'S INVESTMENT PHILOSOPHY AND PROCESS

### OUR PHILOSOPHY

Sustainable investing for us is the systematic integration of environmental, social and governance (ESG) data into our investment process, ongoing research and the engagement with our investments. It also impacts the exercise of our proxy voting rights based on fundamental case-by-case research. Our ultimate goal is to uncover information that we believe can help to improve our investments' compounding ability over long periods of time.

Integrating ESG considerations is integral to our research process and helps us to find companies that align with our philosophy of investing in a concentrated portfolio of 30-40 leading global companies, in any sector or country, that we believe deliver superior customer outcomes and are capable of compounding excess returns over time. We are agnostic about the sources of a sustainable competitive advantage—environmental, social or governance—and follow an in-house developed process to identify SBA drivers and ESG risks. This ESG research is conducted by our own ESG research team.

### OUR ESG RESEARCH APPROACH

The following charts review our approach to ESG research and highlight how we consider both risks and opportunities when analyzing investment opportunities. Our ESG research team conducts deep due diligence that relies predominantly on primary research, in an effort to understand the ESG risks and sustainable opportunities associated with any given investment. This ESG analysis is leveraged for portfolio decisions as well as engagement dialogue. ESG analysis, like everything else in investing, is subjective—there is no substitute for doing your own work.

Within our research of potential opportunities, we prefer companies

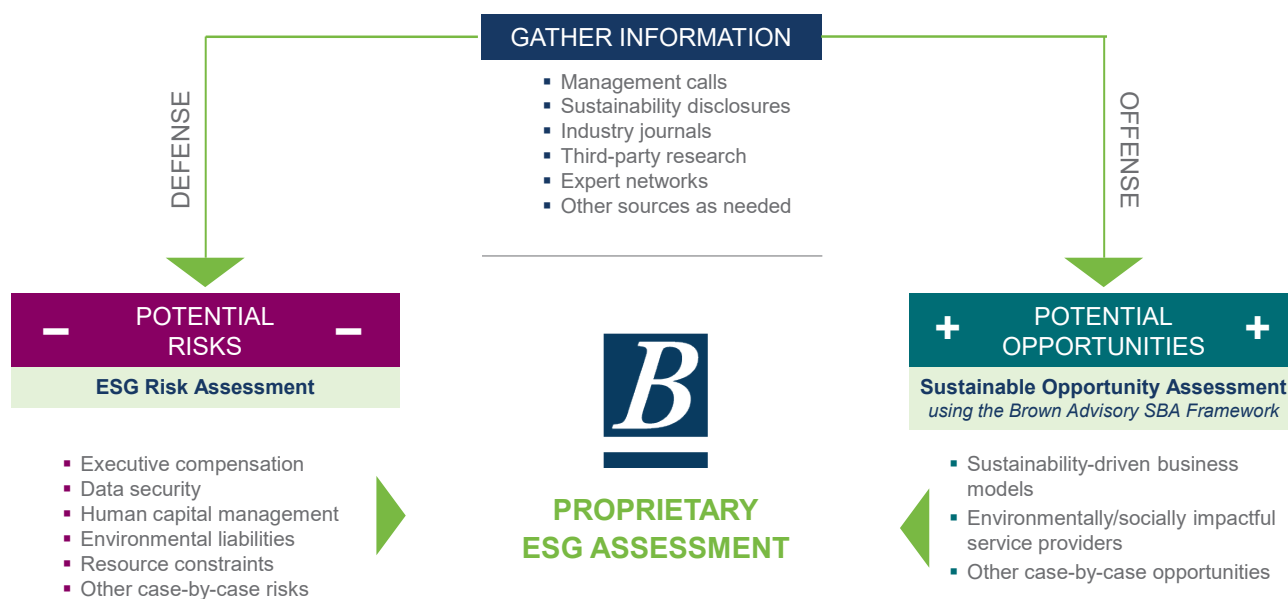
with SBA drivers that help drive material free cash flow generation for customers and meaningful differentiation vs. peers. Specifically, we like to find SBA drivers that can potentially improve a company's performance over time by (1) growing revenue faster than peers, (2) reducing costs or (3) enhancing franchise value (such as brand strength or customer loyalty).

Complementary to the Sustainable Opportunities Assessment, the goal of the ESG Risk Assessment is to uncover any undesired risks associated with the company that might not be revealed by a traditional investment research approach. For a complete ESG Risk Assessment, the ESG research analysts develop a proprietary view on a broad set of potentially material ESG risks and document any ESG controversies associated with the company. We are mindful of the way companies may be playing offense through our investigation of their potential SBA drivers, and how they are playing defense through our assessment of their ESG risk management.

### ENGAGEMENT & PROXY VOTING

We view engagement as an important component of our fundamental due diligence. Engagement is the process through which we communicate with portfolio companies, discuss risks and opportunities they face, and propose actions that we believe will reduce those risks or help them access those opportunities. We seek ongoing, constructive dialogue with our portfolio companies,\* and given our focus on quality and strong management teams, we find that most of our companies are open to such dialogue. We believe that any successful engagement requires persistence over a long period of time. We are committed to this ongoing process and we revisit and monitor the progress being made by the companies we invest in.

### BROWN ADVISORY'S ESG RESEARCH OVERVIEW



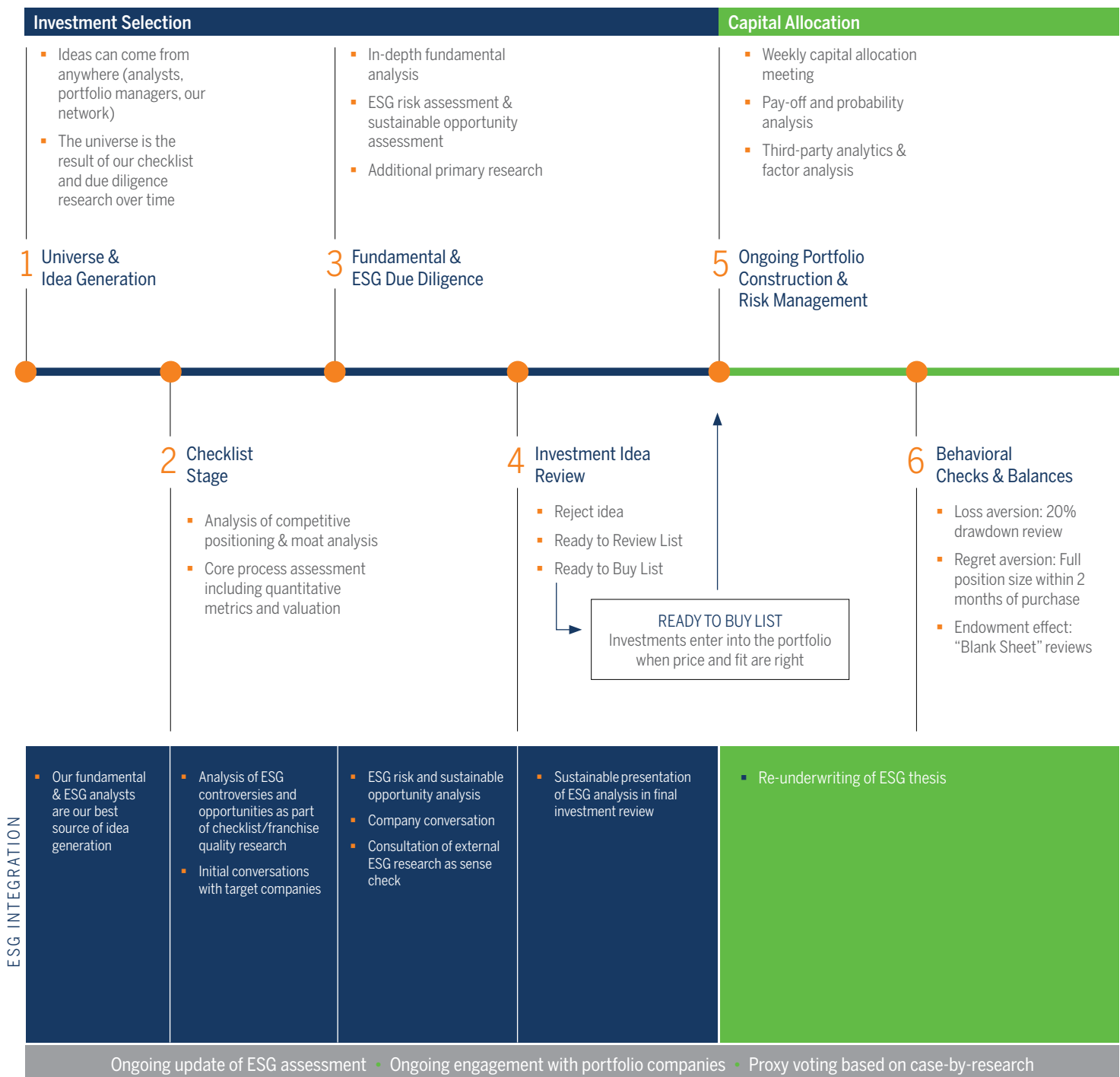
\*We do not engage with every company. We engage only when we believe engagement will be material to our investment decision making.



## INVESTMENT PROCESS

We don't believe that sustainable opportunity and ESG risk can be separated from business opportunity and risk. We therefore integrate the views of our ESG research team at every step of our investment process, as the diagram below indicates. The primary focus of the ESG research effort is to generate performance and mitigate risk.

### INVESTMENT PROCESS AND ESG INTEGRATION



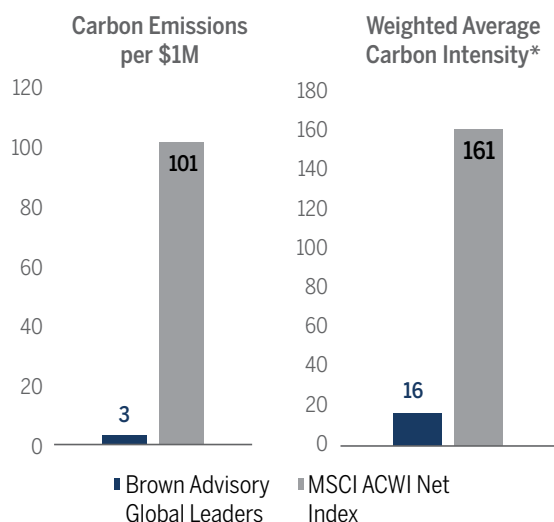
We do not engage with every company/issuer. We engage only when we believe engagement will be material to our investment decision making. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular 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. Please see the end of this report for important disclosures.

## IMPACT FROM THE PORTFOLIO

We believe our investments generate a wide variety of positive impacts. Some of these impacts can be measured in the aggregate—for example, the portfolio's overall carbon emissions profile is summarized in the charts on the left—but in many cases, individual companies are generating impact in fairly unique ways (as noted in the examples on the right).

### CARBON EMISSIONS DATA

Global Leaders Holdings as of Dec. 31, 2022

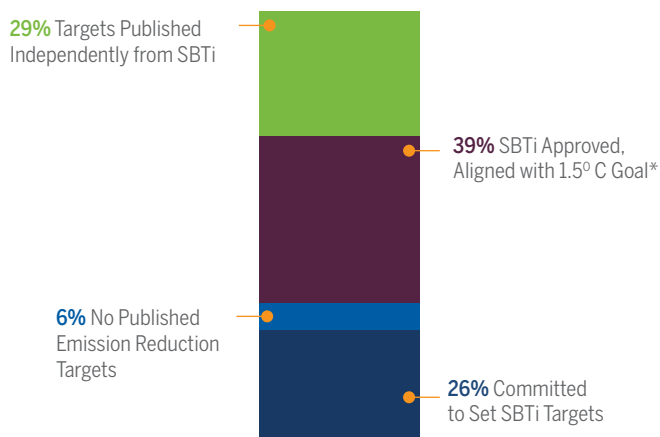


Source: MSCI ESG Manager. \*Tons CO<sub>2</sub>e/\$M revenue of portfolio holdings, adjusted based on relative weighting of each holding. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the end of this report for important disclosures and a complete list of terms and index definitions.

### SCIENCE-BASED TARGETS (SBTs)

Global Leaders Holdings

To ensure climate risks are managed over time, we are focused on the adoption of SBTs across our investments. Many of our investments publish targets in line with recommendations from the Science-Based Target Initiative (SBTi) although some independently set targets from this initiative. We do not require that SBTs be validated by the SBTi specifically, but we do encourage some form of third-party verification and annual reporting of progress toward targets.



Source: MSCI ESG Manager. Data reflects portfolio holdings as of Dec. 31, 2022. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the end of this report for important disclosures.

### IMPACT CASE STUDIES

#### ASML

**SECTOR:** Information Technology

**IMPACT THEME:** Sustainable Technology Innovation

ASML supports the semiconductor industry as a main provider of lithography equipment, which helps semiconductor manufacturers create more powerful and energy-efficient chips. We believe ASML is unlocking significant sustainable opportunities by reducing its own environmental impacts, driving product energy efficiency, and by playing a key role in reducing the complexity in semiconductor production. This industry is driving digital transformation and electrification, and by 2030, this should help cut global emissions by 15%.

Within its own operations, ASML is on track to meet its net zero target by 2025, and expects to reach net zero in its supply chain and waste management by 2030.<sup>1</sup> The lithography technology it has developed is one of the driving forces for increasing transistor density, which enables microchips to have lower power consumption while increasing processing power. We believe ASML's product roadmap will continue to bring down per chip energy consumption during chip fabrication through higher tool throughput.

#### COLOPLAST

**SECTOR:** Health Care

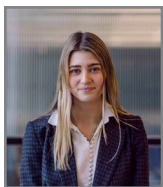
**IMPACT THEME:** Health & Wellness

Coloplast leads the global healthcare industry in developing products and services for people with chronic intimate medical conditions. This demographic depends on high-quality products over long periods of time, and we believe Coloplast is measurably improving patients' lives by enabling more effective treatment. For example, its personalized care system supports patients by connecting them with healthcare professionals, wearable devices, and quality products. This has reduced 30-day readmission rates by 30% and emergency room visits by 45% for Ostomy Care patients.<sup>2</sup>

In addition to improving health outcomes, we view Coloplast's integration of sustainability as a long-term growth driver. The company has set industry-leading goals, including a commitment to 100% renewable energy by 2025 and net zero emissions in its own operations by 2030.<sup>3</sup> In our view, Coloplast is also acting in advance of peers to reduce the environmental impact of its products, especially by ensuring best-in-class packaging and disposal practices. By 2025, the company aims to produce 80% of its packaging from renewable materials, and expects 90% of its products will be recyclable. We believe this combination of environmental stewardship and provision of high-quality care for sensitive medical conditions will support Coloplast's continued growth going forwards.

<sup>1</sup> ASML 2022 Annual Report; <sup>2</sup> [www.coloplast.us](http://www.coloplast.us); <sup>3</sup> Coloplast Sustainability Report 2021-2022  
Source: Brown Advisory analysis. Sectors 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 the sustainable investment philosophy of the strategy, and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account.

## SECTOR SPOTLIGHT: IMPACT IN THE FINANCIAL SECTOR



Prepared by Lara Wigan  
ESG Equity Research Analyst

Historically, many ESG investors avoided the financials sector, due to legacy financing risks, misaligned interest with underserved individuals, poor governance and other issues (see callout). Many of these issues persist today, and we would agree that finding opportunities with compelling ESG traits in this sector can be challenging. However, our research process does not rely on exclusions, thresholds, or top-down thinking in general, which enables our search for unique opportunities within the sector, and helps us find companies that are enjoying the economic benefits that can be achieved through sustainable business strategies.

Global Leaders has long sought out financial companies with compelling sustainability characteristics. We generally avoid traditional, interest-rate sensitive banks, and tend to favor more differentiated investment opportunities. Examples have included microlending in Indonesia, life insurance in China, securities exchanges, rating agencies and payment providers.

When we evaluate these companies, we subject them to the same investment process as we would any other portfolio company; we are looking for high quality companies, that provide exceptional customer outcomes underpinned by high profitability, growth opportunities and highly capable management teams. We look to purchase these companies when they become available at attractive valuations.

Across the various companies we are monitoring in this sector, we are especially interested in those that can enable a) decarbonization of our economy or b) improved financial inclusion within emerging markets. Both of these are urgent ESG challenges, and companies that can provide even part of the solution have an opportunity, in our view, to generate robust growth and profitability for years to come.

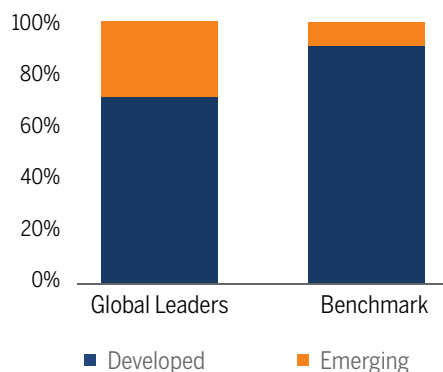
### FINANCIAL INCLUSION

The concept of financial inclusion (i.e., the pursuit of equal access to financial services for all) is something that many large financial firms are beginning to address, but billions of people still lack access to basic banking services. For many years, we have seen this problem as an opportunity for companies to generate both business success and meaningful impact.

As shown in the chart below, our focus on financial inclusion—particularly in emerging markets—is reflected in our holdings within the sector; nearly 40% of our holdings' revenue is earned from emerging markets (vs. only 10% for our benchmark).

### EMERGING MARKET PRESENCE

This strategy's holdings in the financial sector generated nearly 40% of their geographic revenue from emerging markets, vs. only 10% for our benchmark's financial-sector holdings.



Source: Brown Advisory Global Leaders Strategy and MSCI All Country World Index as at 12/30/2022 (retroactively applying the March 2023 GICS re-classification update. Portfolio information is based on a Brown Advisory Global Leaders representative account.

### ESG CHALLENGES IN THE FINANCIAL SECTOR

- Key issues within the sector include controversial lending practices, overall complexity of financial products (and attendant risks for unsuitable customers), and broad challenges with data availability.
- In particular, investors are increasingly focused on lending and underwriting practices that can lead to risks from both an environmental and social perspective. Many banks have financed (or continue to finance) environmentally destructive projects, such as coal mining, oil exploration and/or fossil fuel projects, which in some cases have become capital-destructive as well.
- Additionally, predatory lending practices such as high-interest loans or confusing credit terms can cause significant financial hardship for borrowers. The sector also has a long history of discrimination that has made it more difficult over time for many underserved groups to access credit.
- These ESG risks can lead to negative publicity and reputational damage, financial losses and and potential legal and regulatory risk. Because of this, banks are often poorly rated by third-party rating agencies and may be excluded from ESG funds.

Several Global Leaders portfolio holdings have built large components of their core businesses around this ideal. For example, Bank Rakyat, a company we have held for many years, is in a unique position to enable positive societal outcomes. Through its focus on serving unbanked and underbanked populations, this bank has built out a massive microlending ecosystem in Indonesia that is helping to lift these underserved populations out of poverty. It is a leading provider of loans to micro, small and medium enterprises in Indonesia with ~85% of its loan book disbursed to small and medium-sized companies and ~70% market share of the Indonesian microlending segment\*. **There are few customer outcomes more exceptional than financial freedom**, and we believe the work Bank Rakyat does for small businesses translates to highly attractive business results and a strong defensive moat due to the scale of its distribution network and wisdom of its underwriting decisions.

## LOW-CARBON ECONOMY

Banks are playing, and will play, a critical role in decarbonizing the global economy; the worldwide transition from fossil fuels to renewables will likely cost many trillions of dollars, and the financial sector can help or hinder that transition through its various lending, underwriting and investing decisions.

We want to understand if banks are positioned to take advantage of opportunities as sustainable financing practices mature. We are interested in innovation within the sector, such as expertise or leadership in sustainable lending or green bond issuance, but we also look at how much lending/underwriting is tied to controversial ESG criteria, to get a sense of leaders and laggards across the industry.

For example, HDFC bank is an Indian bank that we have followed and held since 2016. It has enjoyed increased market capture and enhanced franchise value through its sustainable lending as well as its financial inclusivity. It has set targets to become carbon neutral by 2032 through offering loans for electric vehicles and green buildings at lower rates, and aims to leverage green bonds to drive increased interest from investors.

Securities exchanges also play a role in sustainable finance, and when considering exchanges for our portfolio, we like to see that they have prioritized sustainability in various aspects of their products and services. As ESG becomes more broadly integrated, we see a structural growth opportunity for these exchanges, if they can offer solutions such as quality ESG data, specialized ESG indices and the corresponding trading and hedging options.

\*Source: PT Bank Rakyat Indonesia 2022 Annual Report

## ENGAGING WITH FINANCIAL FIRMS

*Engagement is a key input that enables our investment team to gain comfort in a company's sustainable strategies and practices. The lack of disclosure among banks, and especially in emerging economies, requires us to monitor these companies closely to ensure the continuity of our thesis. It can be challenging to understand the different approaches to corporate sustainability across different emerging markets, especially with the lack of data/ transparency that is common in many of those markets, so engaging can help us understand how a company's ESG risks and sustainable opportunities may impact near- and long-term financial performance. Often these conversations help us to sharpen our focus on the specific ESG metrics and data that seem most relevant for that company.*

### CASE STUDY: B3

B3 is Brazil's leading securities exchange, and it has demonstrated a meaningful commitment to sustainability on several fronts. The company offers a range of ESG products and services that include several sustainability equity indices as well as over-the-counter products such as ESG thematic bonds. These products seek to create an investment environment compatible with the demands for sustainable development in Brazil, and to encourage companies to adopt best ESG practices in the Brazilian market.

We engaged with the company to not only enhance our due diligence but to encourage the company to take greater action in terms of disclosure and transparency around sustainability materiality. Further, we put significant emphasis on understanding B3's climate profile—specifically, its current carbon intensity and more importantly its long-term plans for decarbonization (B3 at the time was one of the few companies in the portfolio without public emission reduction targets).

On the heels of conversations with us and other investors, B3 subsequently set ESG targets to reduce its Scope 2 emissions 15% by 2026 (it had been Scope-1 carbon neutral since 2011)<sup>1</sup>. We will continue to engage with the company on this topic and hope to see it set Science-Based Targets.

<sup>1</sup>B3 2022 Annual Report. We do not engage with every issuer. We engage only when we believe engagement will be material to our investment decision making. Source: Brown Advisory analysis. Sectors 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 the sustainable investment philosophy of the strategy, and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account.





We regularly engage with many of the companies whose securities we hold in the Global Leaders 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 they own and related stakeholders. This extends to our responsibility to understand companies from an ESG perspective and, when appropriate, to encourage improved ESG practices.

### 2022 PROGRESS

Our firm's ESG research team plays a critical role in formalizing our ESG engagement approach with companies and issuers. The team made progress on a number of fronts related to engagement in 2022:

- **Collaboration:** Our firm has partnered with a number of organizations and coalitions in recent years in large-scale engagement campaigns and we view collaboration as a core engagement tactic. Our ESG research team became more involved in several of these initiatives in 2022. Brown Advisory was an early signatory to Climate Action 100+, and this past year, we continued our participation in company-specific engagement. Another example is our work with CDP, which spans multiple campaigns on climate change strategy, including outreach to encourage companies to set SBTs and to report to CDP. Also in 2022, Brown Advisory joined the Emerging Market Investors Alliance (EMIA) so that we can collaborate and learn from other investors seeking to invest sustainably in emerging markets.

We have already begun participating in certain working groups and leveraging resources provided by EMIA to enhance our research and engagement efforts.

- **Tapping into expertise:** Sustainability issues can be enormously complex, and for some issues, we seek to build networks with specialized individuals and groups that can help us better understand the associated risks and opportunities. Our work developing Brown Advisory's approach to setting net-zero emissions targets is one example of this. We have been grateful for our long-time partners, Ceres, who have been key partners to us as we have sought to thoughtfully integrate net-zero considerations into our performance-first approach to sustainable investing. Members of our team have participated in Ceres' working groups focused on this line of work where we have been glad to both learn and contribute to investors efforts to find innovative and prudent ways to integrate climate risk and opportunity into investment and engagement approaches.
- **Helping drive implementation:** Once investors reach an agreement with a company in an engagement, there is still a lot of work to do, generally over many years, to actually implement change. We are long-term investors and our typical holding is approximately eight years, so we are often in a good position to monitor and encourage those companies to adhere to annual sustainability goals and targets. For example, we have worked with CDP on its campaign to ask companies to adopt SBTs, and the Global Leaders team is committed to continuing to work with these companies as they seek to set and implement their SBTs.

We do not engage with every issuer. We engage only when we believe engagement will be material to our investment decision making. Please see the end of this report for important disclosures.

ENGAGEMENT APPROACHES

**ESG Due Diligence:** We seek to 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 seek to partner with many investor groups and nonprofits to help advance salient issues.

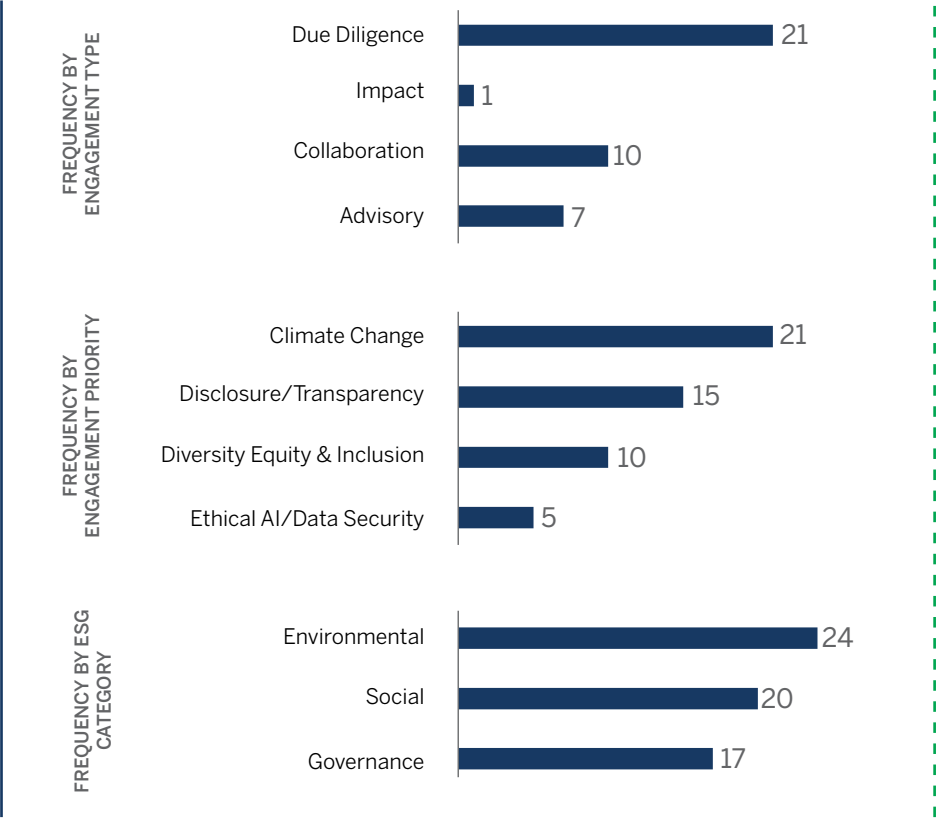
ISSUE PRIORITIZATION

ESG engagements generally flow from Brown Advisory’s overall “bottom-up” orientation to investing—we seek to engage with companies on specific risks and opportunities that we consider to be relevant and material in each situation. However, we also strive to engage at a strategic level with many companies, to address high-priority topics with wide-ranging relevance. We prioritize based on several factors: 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.

Our areas of focus are 1) Climate Change, 2) Disclosure and Transparency, 3) Diversity, Equity and Inclusion, and 4) Ethical AI/ Data Security. These have been our top priorities for several years, and we believe in pursuing progress through consistent engagement over multiple years on these issues.

Below, we provide data summarizing our activity in 2022, and on the next page we offer some examples of notable engagements during the year.

2022 ENGAGEMENT ACTIVITY:  
GLOBAL LEADERS STRATEGY



35 total engagements in 2022 with Global Leaders portfolio companies and relevant stakeholders

Engagement activity information is based on engagements related to the Brown Advisory Global Leaders strategy during 2022. One engagement may incorporate a number of different topics or approaches; as a result, engagements may be counted toward more than one type, priority or category. We do not engage with every issuer. We engage only when we believe engagement will be material to our investment decision making. Portfolio information is based on a Brown Advisory Global Leaders representative account. Please see the end of this report for important disclosures.

## 2022 ENGAGEMENT EXAMPLES

### NOTABLE ENGAGEMENTS IN 2022

Company Name	ASML	B3	Marvell Technology	Tencent	Unilever
E/S/G	E, S	E, G	E, G	E, S, G	E, G
Key topics discussed	Energy efficiency progress; emissions reduction; human capital management	Sustainable product innovation; emissions reduction	Energy efficiency progress; emissions reduction	Data management; governance and oversight; human capital management	Company restructuring; ESG-related target setting; supply chain management
Issue Priorities	Climate Change	Disclosure	Climate Change; Disclosure	Disclosure; Ethical AI & Data Privacy	Climate Change
Engagement Approach	Due Diligence	Due Diligence	Due Diligence	Due Diligence	Due Diligence
Engagement covered SBTs	No	Yes	Yes	No	No

#### ENGAGEMENT EXAMPLE: UNILEVER

**ISSUE:** General Governance

**TYPE:** Due Diligence

The Global Leaders team has long viewed Unilever as a leader in sustainability. The company has a track record of mitigating ESG risks in its large global supply chain, responsibly managing its ESG-related externalities and embedding sustainability into its product development. As long-term investors in Unilever, we have had the opportunity to speak with many members of the management team over the years and this knowledge of the company's structure and governance systems has provided us with strong conviction and comfort in the company's financial and ESG long-term performance. For this reason, Unilever's announcement at the beginning of 2022 that they were planning to undergo a large restructuring, which was to be coupled with the departure of CEO, Alan Jope, led the Global Leaders team to conduct significant due diligence into this subject, including a series of engagements with Unilever itself and outside stakeholders.

In particular, we are aware that as a large global company, Unilever's leadership in sustainability is incredibly important as its extensive operations and complex supply chain could lead to significant increased risk were it not well managed. As an outcome of these engagements with the company and other stakeholders, we have gained comfort that not only has Unilever considered how the restructure will affect environmental and social outcomes, but also that the shift to a more category focused structure may result in stronger ESG performance, especially increased transparency around how the company is seeing sustainability drive revenue growth, reduce costs and enhance the value of its various franchises.

#### ENGAGEMENT EXAMPLE: SCIENCE-BASED EMISSION TARGETS

**ISSUE:** Climate Change, Disclosure

**TYPE:** Impact

The Global Leaders team is undertaking a multiyear focus on engaging with companies on the topic of setting Science-Based Targets (SBTs) for emissions reduction. The team believes that setting and achieving verified SBTs would reduce long-term risk of companies and position them well to succeed in a lower carbon future. We seek to engage on this subject both through direct engagement with companies, but also through joining collaborative initiatives such as CDP's Science-Based Targets Campaign which Brown Advisory has supported since 2020. When engaging on the topic of science-based targets we believe that the topic must be raised thoughtfully – companies in different regions and industries face different challenges in setting these targets and these must be kept in mind. During 2022, our team engaged with five companies in the Global Leaders portfolio spanning multiple sectors including technology, healthcare and financials. We look forward to continuing these efforts into 2023 and reporting on progress.

Source: Brown Advisory Research. Engagement case studies are based on engagements related to the Brown Advisory Global Leaders strategy during 2022. We do not engage with every issuer. We engage only when we believe engagement will be material to our investment decision making. Sectors 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 the sustainable investment philosophy of the strategy, and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account.



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. 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.

We have taken a number of steps recently to enhance our approach to proxy voting. Many of our clients have asked us to provide disclosure on what we view to be the most significant votes that our strategies have cast during the year. We want to be clear that we view all of our proxy votes to be important, but we must acknowledge that some votes that we cast have the potential to inform more significant outcomes than others. For the first time, we have reported on our five most significant votes in this impact report, considering various factors such as whether a vote was cast against management, or if the proposal aligned with an engagement priority, or if the targeted topic is especially salient at the time of the vote.

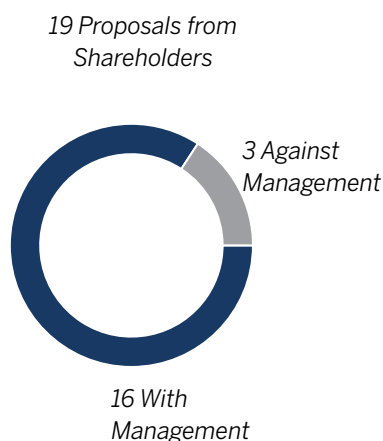
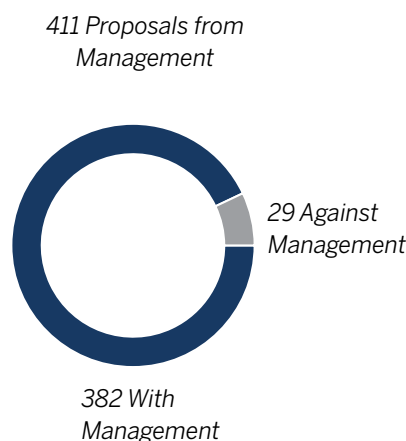
We also reviewed our various policies related to sustainable investing, including our institutional sustainable investing and proxy voting policies, and updated them in several areas. (Current policies are available on our website: [Institutional Sustainable Investing Policy](#), [Institutional ESG Engagement Policy](#), [Proxy Voting Policy](#))

We believe that companies can benefit by considering forward-thinking shareholder proposals. We generally aim to 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 2022.

Proxy voting for our institutional investment strategies is overseen by a proxy voting committee made up of equity research analysts, ESG research analysts, operations team members, the head of our sustainable investing business, our director of equity research and our general counsel (among others). The committee oversees the proxy voting process, but responsibility for casting votes rests with our investment and ESG research teams and, ultimately, with the portfolio managers for each Brown Advisory equity investment strategy.



## 2022 PROXY VOTING BY THE NUMBERS: GLOBAL LEADERS STRATEGY



There are various factors that guide our case-by-case voting decisions, many of them related to materiality. In recent years, regulators focused on proxy voting and the importance of fiduciaries to only consider financially material factors when engaging in proxy voting. We believe that the stance of these agencies is aligned with Brown Advisory's view on the importance of material ESG considerations from a performance-first perspective.

### NOTABLE PROXY VOTES IN 2022

The Global Leaders team views proxy voting to be a significant part of fiduciary duty. While we believe that each vote cast is an important action, some of our votes each year are, in our view, especially aligned with issues of relevance for the company in question. We have highlighted some of the votes we considered to be more notable in 2022.

Company Name	PT Bank Rakyat Indonesia	Atlas Copco	The TJX Companies, Inc.	Mastercard Incorporated	Estee Lauder
Date of Vote	1-Mar-22	26-Apr-22	7-Jun-22	21-Jun-22	18-Nov-22
Proponent	Management	Management	Shareholder	Shareholder	Management
Proposal Theme	Board changes	Director election	ESG related reporting requirements	Process changes to call a special meeting	Executive compensation
Proposal Text	Approve Changes in the Boards of the Company	Re-elect Peter Wallenberg Jr as Director	Report on Assessing Due Diligence on Human Rights in Supply Chain	Provide Right to Call a Special Meeting at a 15% Ownership Threshold	Advisory Vote to Ratify Named Executive Officers' Compensation
Vote Instruction	Against	For	Against	Against	For
Rationale	Voted against proposed change based on insufficient available information; we communicated our rationale to management ahead of our vote.	We voted for the re-election of a member of the Wallenberg family to the Board, as we believe this gives Atlas Copco a multigenerational investment horizon that is unique amongst peers.	We believe that TJX provides sufficient disclosure regarding its human rights due diligence processes for its supply chain, and that the cost of additional requested reporting would not outweigh its benefits. We are currently comfortable with the company's management of this risk.	After weighing costs and benefits of this proposal, we believe that its suggested ownership threshold is too low. Shareholder rights are very important, but we believe these should not be granted in a manner that unnecessarily disrupts company management.	We have assessed concerns regarding the structure of the pay program that have been highlighted, however we believed that the pay is reasonably aligned with performance for the particular year under review.

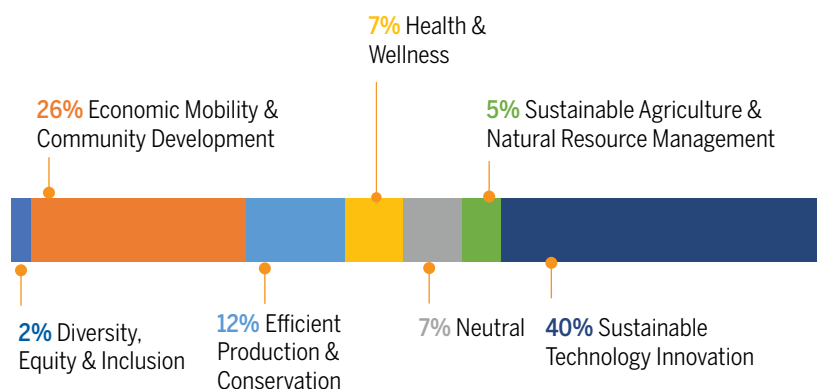
Source: Brown Advisory. Portfolio information is based on a Brown Advisory Global Leaders representative account. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action 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.



## IMPACT ANALYSIS: THEMES AND ISSUES ADDRESSED BY THE PORTFOLIO

### IMPACT THEME ANALYSIS

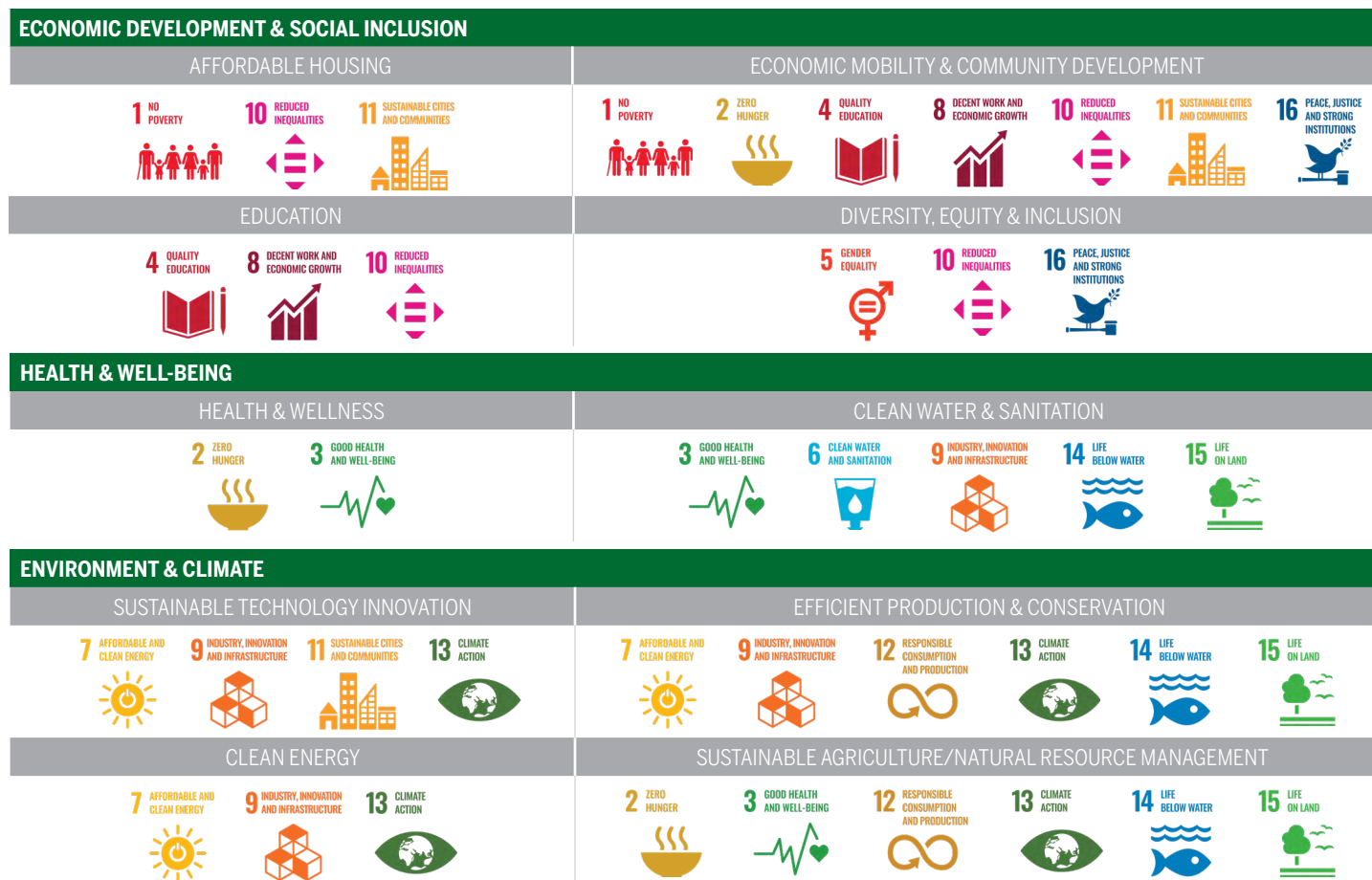
We categorize our holdings according to a series of impact themes to illustrate the variety of challenges and opportunities that our portfolio addresses. We do not target any particular impact mix, and we have found ample opportunity to invest in companies that address a wide range of social and environmental issues. (These themes align well with the U.N. Sustainable Development Goals, as noted below.)



Source: Brown Advisory analysis. Numbers may not total to 100% due to rounding. Impact theme information excludes cash, is based on a Brown Advisory Global Leaders representative account as of Dec. 31, 2022.

### IMPACT THEME ALIGNMENT WITH THE U.N. SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The U.N. SDGs have become a common framework for categorizing projects and investments that seek to generate positive societal impact. Our impact themes are broadly aligned with these SDGs, as noted in the diagram below.



Source: United Nations, Brown Advisory analysis.

Brown Advisory has been a signatory to the PRI (Principles for Responsible Investment) since 2014. Each year, we complete a rigorous disclosure of our sustainable investing practices as part of our obligation as a signatory, and PRI in turn provides an evaluation of our practices and rates us relative to our peers in a variety of categories.

After a long delay (results from the 2021 reporting cycle were released in September 2022), PRI has overhauled its scoring system to help address the “grade inflation” that had occurred in the program over the years. Scores are now provided in a bell-curve driven “star” system rather than with letter grades, offering a more helpful view of an asset manager’s relative strength vs. its peers.

We earned 4-star and 5-star ratings across the board (with one exception in the category for voting in passive strategies—we do not manage any such strategies).

We believe that an external recognition of a company’s sustainability credentials are important for investors to be able to compare and analyze the large amount of ESG information available and we will continue to provide such transparency. We do however see significant value in reaching out to our investors directly, and as a firm we again published such information in 2021. As we did last year, we fully embedded sustainability reporting within our [Annual Report in 2022](#). In this report, we express our commitment to our clients, colleagues, communities and society, and we report our progress on initiatives that aim to contribute to a more just, healthy and prosperous future for all.



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.

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. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

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.

ESG 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. ESG analysis may not be performed for every holding in the strategy. ESG considerations that are material will vary by investment style, sector/industry, market trends and client objectives. The Global Leaders Strategy ("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 MSCI ACWI® (All Country World Index), MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and midcap stocks across developed and emerging markets. As of May 2022, it covers more than 2,933 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries.

Factset ® is a registered trademark of Factset Research Systems, Inc.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)", "GICS" and "GICS Direct" are service marks of Standard & Poor's and MSCI. "GICS" is a trademark of MSCI and Standard & Poor's. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries.