Fourth Quarter 2020

# AMERICAN FUND REVIEW AND OUTLOOK

The American Fund aims to achieve capital appreciation through a combination of Brown Advisory in-house U.S. equity strategies. The strategy allocation for the Fund is a fixed apportionment of 75% to U.S. Flexible Equity and 25% to U.S. Small-Cap Blend. For the fourth quarter the American Fund returned 13.71% vs. 14.55% for the benchmark Russell 3000® Index (net) and 12.01% for the S&P 500® Index (net). For calendar year 2020 the Fund returned 18.36% vs. 20.27% for the benchmark and 17.75% for the S&P 500® Index (net).

**U.S. Flexible Equity Strategy**

U.S. equity markets posted double-digit gains during the fourth quarter and for the full year. The Flexible Equity strategy was ahead of the S&P 500® Index for the year but was modestly behind for the fourth quarter. We are pleased to report that the returns of the Flexible Equity strategy compare favorably to our benchmark for the commonly reported periods: one year, three years, five years and 10 years.

How the events of this year unfolded is beyond imagination. COVID-19 brought the world to its knees quite rapidly. The fear and hardship people and businesses endured were extreme. The world was blindsided by the pace of the spread of the virus, the initial lack of understanding of the disease and its treatment, the voluntary halt of the global economy, the inconsistency and incompetency of handling the health crisis, the politicization of “wearing a mask” in the U.S.—and the list goes on. For most equity market participants, even more blinding was the sharp equity market correction in the first quarter that lasted a “whopping” five weeks followed by the steepest ever “v-shaped” recovery in the markets. From the peak on February 19, at an all-time high, the market corrected nearly 34%, but since hitting the bottom on March 23, we have now had three consecutive quarters of strong market appreciation and new record levels in major U.S. indices to end 2020.

The economy declined steeply but was progressively less bad through the year due to the “all-in” monetary actions by the Federal Reserve and the fiscal response from the government earlier in the year. The equity markets responded sharply to this as well and more recently to the hopes of ending the spread of the disease from the recent launches of two highly innovative messenger RNA vaccines from Pfizer and Moderna. The speed and size of the liquidity injection by the Fed as well as the fiscal response nearing $3 trillion (including the one recently passed) have dwarfed actions taken during past crises, including the ones during the Great Recession (2007–2009), which were at that time considered unconventional and extraordinary.

In the same vein, the speed at which these vaccines have been discovered blows away the conventional development cycle of 10–12 years for past vaccines. The world would not be at its current stage of optimism had we not made such quick progress on these vaccines’ development. This has been possible only due to decades of advancements and contributions made by the scientific community. One of the more inspiring stories we learned this year is the tale of personal perseverance of Professor Katalin Kariko, a Hungarian-born immigrant and a less-known scientist at the University of Pennsylvania. She has contributed immensely to this field by making a key discovery that allows the injected synthetic mRNA to evade an attack by our immune system. Kariko persisted despite reaching several dead ends, lack of adequate funding, and years of past disappointments.

Notwithstanding the tumultuous “bookends” of the last decade—the great financial crisis of 2009 at one end and the pandemic of 2020 at the other—this period has been very favorable for U.S. equity investors. The 10-year compounded average total returns for the S&P 500® Index is 13.88%. Of the last 10 calendar years, seven posted double-digit total returns, and only one where investors experienced a negative total return (-4.38%). This compounded average return of 13.88% is well ahead of the dividend plus the growth in earnings per share of approximately 7% to 8% for the Index during the same period. The difference is due to multiple expansion. As of the end of the year, the S&P 500® Index’s forward P/E multiple was 22x to 23x versus a 20-year average of 16x to 17x. This expansion in multiples seems justified against an extraordinary backdrop of a 0.9% yield on 10-year U.S. Treasury bonds. Indeed, with inflation running at approximately twice the yield on bonds, the 10-year risk-free rate is negative in real terms.

It would not be unreasonable to assume that a portion of future return from equities has potentially been pulled forward given the current optimism and elevated multiples. Our expectation of long-term contribution to returns of 7% to 8% from a combination of the current dividend yield and growth in company earnings is no different from the last cycle. In fact, in the shorter term, we are expecting even more robust earnings growth in 2021 as an economic recovery takes hold and pent-up demand comes into play. However, total returns for equities from this point are dependent on how multiples shake out in the future, which in turn may be influenced by the outlook of long-term interest rates. Equity returns could be suppressed if long-term interest rates were to rise materially in the future.

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# AMERICAN FUND REVIEW AND OUTLOOK

There is a sense of relief to see 2020 in the rearview mirror. Despite several uncertainties and challenges that still need to be overcome, it is remarkable to end 2020 on a high note, especially relative to where we were in April this year. It is reassuring to see the new vaccines exceed all expectations both from an efficacy and a safety profile point of view. We are optimistic about 2021 and are expecting continued progress toward normalization, which should result in robust growth in corporate profitability over the year. A word of caution related to markets is warranted, however, as euphoria creeps up in portions of the market, as money is raised in new IPOs and "blank check" companies (SPACs) and as a resurgence of retail investors hit a new record.

As a reminder, we usually close our commentaries with a statement of our investment approach. Despite the very real challenges in 2020, and of course others we have encountered in the past and no doubt will occur in the future, we expect the following to continue to be a sound basis for an investment program:

*The Flexible Equity team searches for investment bargains among long-term, attractive businesses with shareholder-oriented managers—those with productive assets and productive managers. These businesses should have or develop competitive advantages that result in good business economics, managers who allocate capital well, capacity to adjust to changes in the world and the ability to grow business value over time. Bargains in these types of stocks can arise for various reasons but are often due to short-term investor perceptions, temporary business challenges that will improve, company or industry changes for the better, or as-yet-unrecognized potential for long-term growth and development. Despite the occasional investment that will go awry and stretches when the general stock market is unrewarding, we are optimistic about the long-term outlook for equities of good businesses purchased at reasonable prices and our ability to find them.*

Best wishes for a healthy, happy and prosperous 2021.

### U.S. Small-Cap Growth Strategy

We sincerely hope that everyone reading these pages as we exit 2020 is safe and healthy. We know that many of you have other pressing priorities given the circumstances we find ourselves in, so we appreciate you spending some of your time to consider our portfolio.

The Brown Advisory Small-Cap Growth strategy produced strong absolute gains during 2020 due to solid stock selection. This enabled it to remain within striking distance of its closest benchmark, the Russell 2000® Growth Index, despite a massive philosophical and stylistic headwind that emerged at the tail end of the year. The returns compared favorably to the broader Russell 2000® Index and the S&P 500® Index. Given recent events and the continued challenges being faced, we are proud that our research team has remained focused and productive. This effort allowed us to broaden our knowledge of our investable universe and deploy numerous new ideas into the strategy over the last 12 months.

As we enter the new year, our team is once again faced with the increasingly difficult task of finding compelling risk/reward ideas following the miraculous small-cap stock recovery from its lows and its recent surge to new, all-time high valuations. We always keep one eye on absolute and one eye on relative returns as we navigate the portfolio through changing environments. However, as we continue to witness certain areas of the market climb into the stratosphere, we are also working hard to keep our head out of the clouds and our feet on the ground, remaining disciplined against our philosophy and process.

### Philosophy and Performance Dynamics

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair." - Charles Dickens, A Tale of Two Cities

We are not quite sure how to sum up 2020 in our own words. Consider us speechless. After reading, thinking, and reflecting over the past couple of weeks in preparation for the coming year, we are still unsure whether Dickens or the Dead summed up our feelings best. "What a long, strange trip it's been…" – Truckin', Grateful Dead.

In the land of small-caps, the fact that the Russell 2000 Index posted its worst (1Q20) and best (4Q20) quarter in history in the same year is a Dickensian summation of the insanity of 2020. Global COVID-19 lock-downs induced an economic heart attack and the worst market plunge since 1929. Then, lower-than-projected lethality, epic central bank stimulus, massive government relief packages, and never seen before vaccine efficacy pushed smaller companies to more than double off their lows as nearly all investment narratives became positive. Upon the ball dropping in Manhattan, the S&P 500 Index had risen 18.40%, the Russell 2000 Index 19.96%, and the Russell 2000 Growth Index 34.63%. Our gains did not quite keep pace with the latter despite some relatively solid stock selection, so let's lay out why.

The first three quarters of the year can be explained simplistically by the aforementioned good security selection, but a longer examination of the conclusion of the year (see exhibits) is warranted. 2020 unfolded as follows:

1Q20: The Russell 2000 Index dropped more than 20%, and, for the first time, the Russell 2000 Growth Index held up markedly better than the Russell 2000® Value Index. Loss-makers outperformed by nearly 800 basis points. In addition to being massively underweight profitless companies, our portfolio also experienced several of our most historically defensive issues underperform due to the unique nature of COVID-19. Fortunately, stock selection was positive enough to overcome all these factors, and the portfolio generally held up better than all small-cap indices. We were pleased to outperform but disappointed that it was not by a much larger margin.

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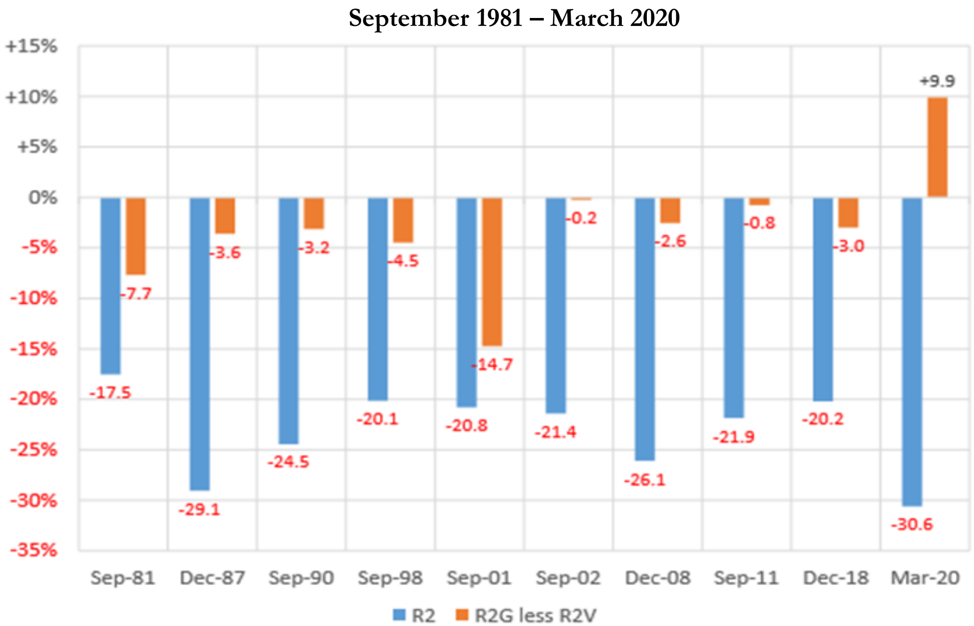
**Exhibit 1: Historical Analysis of the Russell 2000 Index, Russell 2000 Growth Index and Russell 2000 Value Index During Large Sell-offs**




2Q20: Federal Reserve stimulus jolted the market back to life. A reduction in cash levels and a few reasonably well-timed purchases of both new and existing holdings allowed the strategy to outperform despite the meteoric rise.

3Q20: A somewhat more normal quarter as stocks rose at less of an extreme pace. Solid stock selection enabled the portfolio to more than keep pace.

4Q20: Our higher quality bias and diversification was a meaningful headwind in keeping up with the epic year end rally. To better understand why this was the case, we provide a brief review of our long-held investment approach.

Our strategy's mission is to enable our clients to attain their personal or institutional goals through attractive long-term returns. In this pursuit, our goal every year is to continue to build an *all-weather* portfolio that one can own through a full market cycle. In order to achieve this end, we concentrate our efforts on producing solid *risk-adjusted* returns. We strive to keep up during robust times through well timed and appropriately weighted individual stock selection, while mitigating downside risk through asset quality, diversification, and valuation sensitivity. Our view is that this combination of upside/downside capture will enable us to achieve our goal and realize our mission over time. The question remains how to best try and achieve this alluring combination. Our philosophy is to harness the power of compounding. Accordingly, we need to find companies with the ability to scale into much large business franchises in the future. The quality bias embedded in our portfolio emanates from our "3G" investment filter, which seeks to increase the odds that we concentrate our time and efforts on these unique opportunities. For each investment, we seek out *durable* Growth, *sound* Governance and *scalable* Go-to-Market strategies. With our thinking anchored as long-term business owners, compared to renters of stocks, we establish a high hurdle to enter the portfolio. For this reason, we skew higher in quality than our most often quoted benchmarks. The second attribute of the portfolio that aids in the creation of a strategy and has the long run benefit of aiding downside protection is diversification. We believe Nobel Prize laureate Harry Markowitz was correct when he stated that "diversification is the only free lunch" in the investment business – a reduction in risk, without a reduction in return potential over the long-term. Our portfolio construction is built on a holistic diversification that takes into account many different variables (i.e. sector, sub-sector, cyclicality, profitability, valuation, and balance sheet strength among others). This is intended to tamp down the top-down (or beta) effects of the portfolio, enabling our alpha to be driven by our bottom-up security selection. The data show these actions have largely generated the desired outcome since inception.

The final thread that runs through the portfolio is a valuation discipline. However, this is not rules based – we do not have an artificial forward P/E or EV/EBITDA limit. We simply attempt to understand the expectations embedded in a stock and whether those expectations are reasonable, conservative, or aggressive, in our view. Then, based upon the unique characteristics of each business, we ask whether the price being offered by Mr. Market is enabling our clients to attain an adequate level of return for the risk assumed. Our position sizing follows suite and is quite commonsensical. If we can own a great business at a highly attractive price, we will own a larger position, all things being equal. Typically, we have a structural position weight and then take advantage of the manic mood swings of the market to take risks (increase size) when we are getting paid to do so and avoiding them (lower size) when we are not. Investment, fundamentally, is about the price you pay for the value you get. We try not to forget this fact.

The short process review above is a reminder of how we travel on our investment journey. Similar to the way we want the management teams of our portfolio holdings to think, we desire not to maximize short-term results, but to act in a manner that results in lasting, long-term value creation.

**Economy and Markets**

Welcome to the land of the unknown. So much has been written and broadcast regarding the impact of COVID-19 on the economy that we have little to add at this point. However, what we do know is that the long-term impact of this still ongoing event is highly uncertain. How much of life will permanently change? How fast will we get back to the old normal? The answer probably lies less with the extreme views and more in the middle.



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We have a similar take on the equity market. For example, we do not believe that value investing is dead and growth-at-any-price is the only path forward. Value investing has suffered due to a period of accelerating change and disruption, which likely led to a greater percentage of value traps and lowered the efficacy of mean reverting strategies. Momentum growth investing has succeeded as this dynamic period has created compelling future narratives based on our present reality. Will this continue? It may. Do we think it is a permanent change? Probably not. Again, we like the middle view.

Our crystal ball is no clearer than anyone else's. We do not know what the future impact of our extreme monetary and fiscal policies will be, nor whether or how our current social and political unrest will be healed. Therefore, we can't articulate the market regime (valuation et al.) we will encounter going forward. Thus, all we can do is assess where we are today and think about the probability of future outcomes (not unlike our investments), establishing a portfolio that is anchored on the path of least resistance while respecting the extremes, using history as a guide.

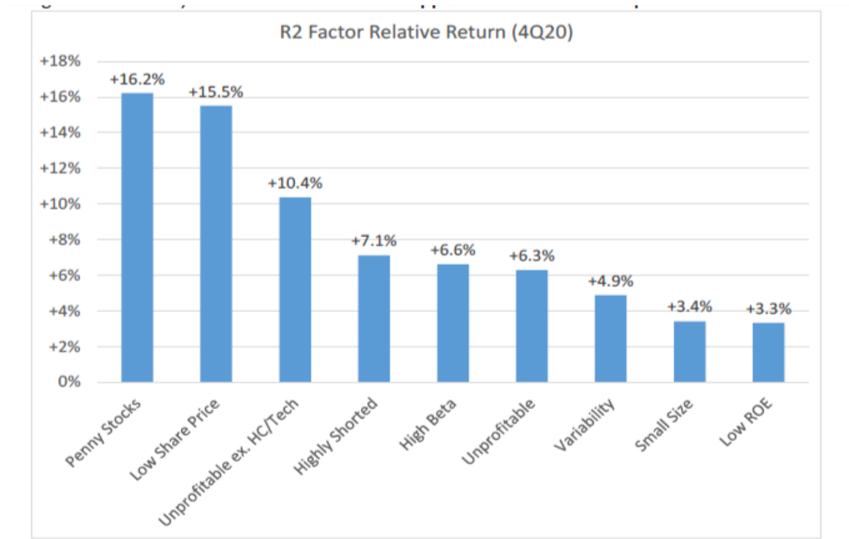
**Investment Facts and Strategy Impact**

For the second year in a row, the fourth quarter of the calendar year exhibited a pronounced *risk-on* dynamic. In fact, 2020 would make 2019 blush. It was the best quarter ever posted by the Russell 2000 Index (+31%) and the Russell 2000 Value Index (+33%), along with the third best for the Russell 2000 Growth Index (+30%). We have been commenting more frequently on the changing composition of the smaller-cap landscape, noting that the mix of "low quality" businesses has gone up. It is for this reason that dramatic small-cap outperformance typically is associated with quality underperforming (or "low quality" outperforming). This was certainly the case in 4Q20. According to Furey Research Partners, the most compelling factors that worked in 4Q, particularly in November and December, included penny stocks, low priced stocks, unprofitable stocks, highly shorted stocks, high beta stocks, highly variable companies, highly valued stocks, and low ROE businesses. More simply, if you had a P/E ratio, you generally lagged by hundreds of basis points, while an incalculable PE had you sprinting ahead by hundreds of basis points.

The final quarter of the year was an exclamation point on the investment environment broadly encountered in 2020. For 10 months out of the year, our stock selection was solid enough to overcome this philosophical and stylistic headwind, but not in the last 60 days. The prevailing winds were just too strong. Asset quality, diversification, and valuation discipline were not your friend.

A picture is said to say a thousand words, so hopefully the following exhibits provide greater context to the extreme investment world we inhabit:

**Exhibit 2: Small-cap 4Q20 Factor Returns**




*Source: Furey Research Partners, FactSet, as of 12/31/20*

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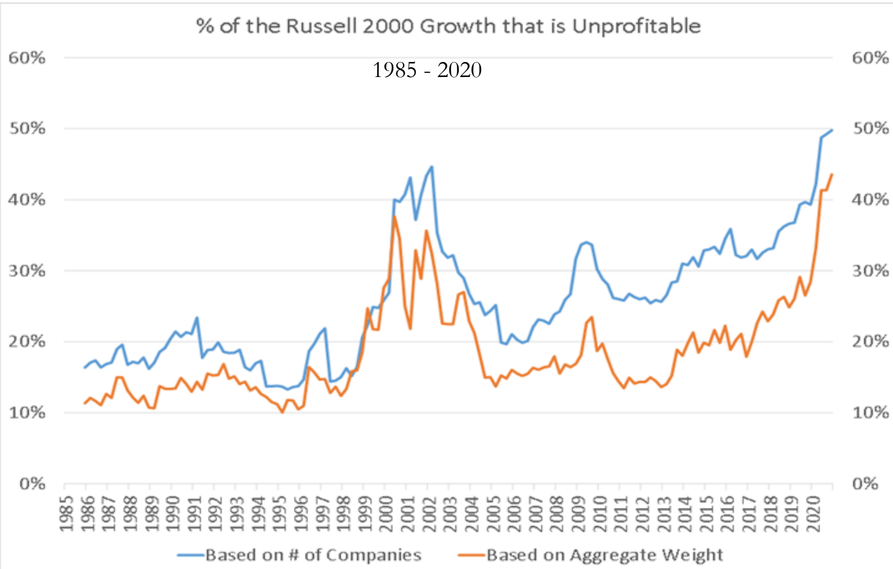
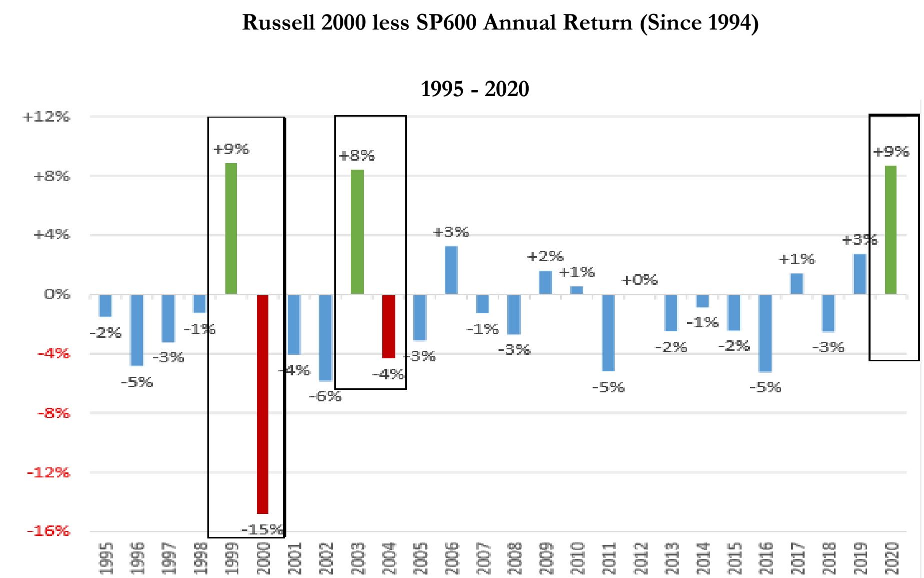
# AMERICAN FUND REVIEW AND OUTLOOK

### Exhibit 3: Russell 2000 Growth Loss-Making Companies



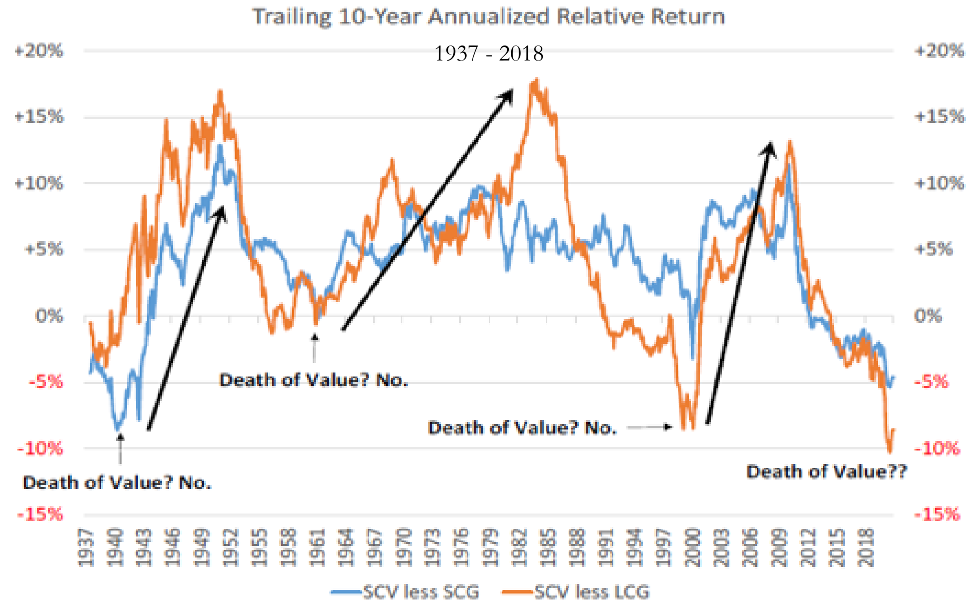

*Source: Furey Research Partners, FactSet; as of 12/31/20*

### Exhibit 4: Another "Low Quality" Measure Stands Out in 2020




*Source: Furey Research Partners, FactSet; as of 12/31/20*

### Exhibit 5: Trailing 10 Year Annualized Relative Return of SCV vs. SCG




*Source: Furey Research Partners, FactSet, Morningstar; as of 12/31/20*

### Exhibit 6: Largest Annual Growth to Value Spread Since 1999

| | | Next Year | | |
|---|---|---|---|---|
| Year | Growth vs. Value | R2 Growth | R2 Value | Difference |
| 1999 | 44.6 | -22.4 | 22.8 | -45.3 |
| **2020** | **30.0** | **?** | **?** | **?** |
| 1980 | 26.9 | -9.2 | 14.9 | -24.1 |
| 2007 | 16.8 | -38.5 | -28.9 | -9.6 |
| 1979 | 15.5 | 52.3 | 25.4 | 26.9 |
| 2017 | 14.3 | -9.3 | -12.9 | 3.6 |
| 2009 | 13.9 | 29.1 | 24.5 | 4.6 |
| 1991 | 9.5 | 7.8 | 29.1 | -21.4 |
| 2013 | 8.8 | 5.6 | 4.2 | 1.4 |
| 1989 | 7.7 | -17.4 | -21.8 | 4.4 |
| **Average** | **18.8** | **-0.2** | **6.4** | **-6.6** |
| **Overall** | **-1.3** | **11.8** | **13.4** | **-1.7** |

*Source: Jefferies, FactSet; as of 12/31/20*





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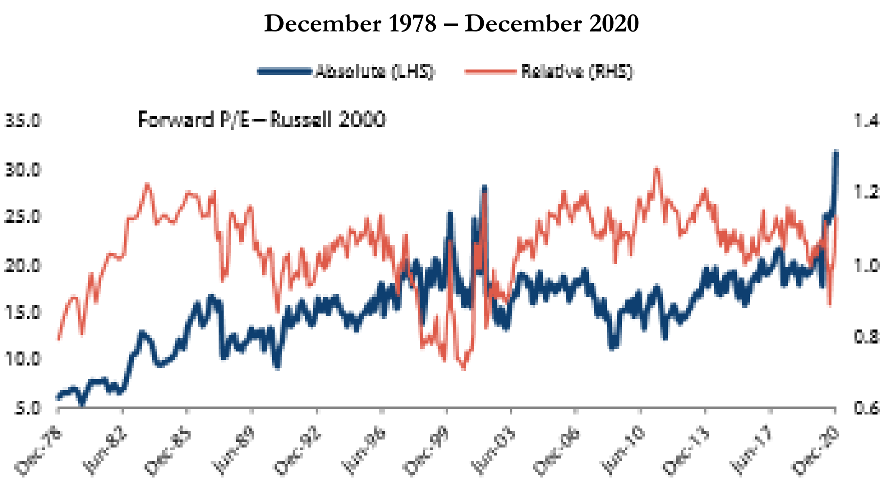
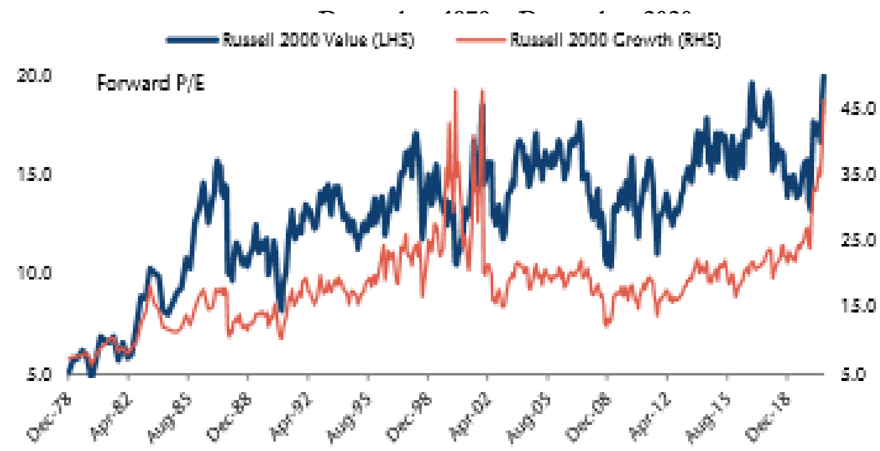
Given the dynamics shown on the prior page, it is likely not surprising that biotechnology played a large role, particularly in the acceleration of the trends of late. The sub-sector drove nearly 800 basis points of the Russell 2000 Growth Index return in 4Q20 and over 1,000 basis points for all of 2020. It cemented the trend of Healthcare and Technology being the only true areas of outperformance for the benchmark. The strong price appreciation has resulted in a commensurate rise in valuations and a tsunami of new deal issuance as depicted the next three exhibits.

**Exhibit 7: The Russell 2000 Index Forward P/E**



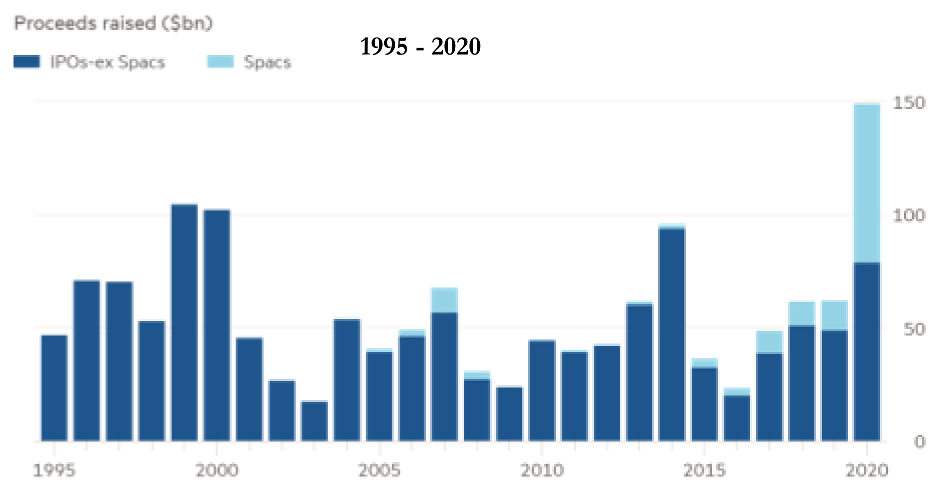

*Source: Jefferies, FactSet, as of 12/31/20*

**Exhibit 8: The Russell 2000 Growth & Russell 2000 Value Forward P/E**




*Source: Jefferies, FactSet, as of 12/31/20*

**Exhibit 9: IPO Proceeds Reach New Heights**




*Source: Refinitiv, as of 12/31/20*



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**Beyond the Highlights**

The emphasis of our year-end reporting tends to focus on the major external factors and idiosyncratic causes of our investment results. However, there are typically many stories during a given time period that are emblematic of our process, but do not make the highlight reel. We hope to provide our investors with a better understanding of how we think and what actions are tied to our thoughts in this section.

Establishment Labs Holdings (ESTA) is the smallest of the leading designers and manufacturers of breast implants and related devices for reconstruction and augmentation procedures. Its primary competitors are Allergan and Johnson & Johnson, whose annual revenues dwarf the approximate $83 million in sales that ESTA is expected to generate in calendar 2020. Given that the company is still sub-scale, despite its attractive gross margin structure (60-70%), the business is currently unprofitable as the management team is prioritizing research and development along with its go-to-market activities in order to position itself for sustained top-line growth.

Our investment thesis is currently predicated on ESTA's superior product offering and its ability to gain share. The worldwide market for breast implants is currently ~$1.5 billion and is projected to grow at 6% according to company estimates and GlobalData. ESTA's Motiva brand possesses considerable safety and aesthetic innovations vs. currently available options. Since the company's products were commercialized in 2010, the business has expanded into 60 countries, including 9 of the top 10 markets, but has not yet entered the U.S. as FDA approval is still pending. By analyzing its success in the existing market, the company has multiple proof points that when its product is available and surgeons are educated, there is a clear ability to garner an increasing percentage of a practice's procedures.

When we first discovered the company through our investment network in early June of 2019, it was the aforementioned large and growing market relative to the size of the company that piqued our interest. However, given ESTA was at the very low end of our size threshold and the competitive set appeared daunting, there was a tremendous amount of due diligence that would need to be done in order to ensure it passed through our 3G investment filter. In fact, I believe the initial conversation with Mark Kelly, our small-cap health care analyst, went something like the following: "…let me get this straight, you want to look at a sub-$100 million breast implant company that does not make money, is going up against entrenched large competitors and has its significant corporate operations in Costa Rica?..." After a brief initial discussion, we agreed to screen the company further, but with an understanding that the bar the company would need to clear in order to make it into the portfolio would have to be set quite high.

Subsequent to our introductory conversation, we began reading on the company and completed our initial screening call with management. With a better idea of the key issues surrounding the business, we began to stir up our resources to plot a path to better understanding the key value drivers. A "screening note" was completed a couple of weeks after initially sourcing the idea. For the next three months, we conducted calls with key opinion leaders (KOLs) in the space to both better understand the existing clinical product data and the company's FDA pathway to approval. In addition, we had a former FDA official review the data, published literature, and current standards to render an expert view on both the feasibility and timing of a potential entry into the large U.S. market. Our interactions with the management team included an in-person meeting and dinner to better understand the company's financial model and strategy, a trip to visit the company's operations and meet its executive team in Costa Rica in September, and a couple of follow-calls and a conference meeting in the Fall.

Upon completion of our due diligence, we commenced a final review of our investment memo, financial model, valuation framework, and debated potential position sizes based upon our understanding of the long-term return potential against the risks. Given its lack of profitability and the fact that U.S. approval was still on the come, we initiated and scaled up a position opportunistically in the name during late 2019/early 2020 that was toward the lower end of our 0.5% to 5% range. While we bought the stock on its own merit, we also believed that it would help balance out our health care positioning as a couple of our existing names, most notably Charles River Labs and Catalent, had grown larger and more mature over our years of ownership and should be offset with some smaller, earlier stage holdings.


*Source: FactSet; IPO date 7/20/18 – 12/31/20*

Thus far, particularly given the outbreak of COVID-19 last year, we have been pleased with ESTA's execution and progress. At less than $100M revenue today, we believe that the company has the potential to be a multiple of its current size over the next five years, and its high gross margin structure should enable meaningful earning power with scale. Furthermore, penetration of the U.S. market upon FDA approval has the potential to be a meaningful fundamental catalyst in the next couple years. It is for this reason that we remain comfortable with our present positioning despite the recent move higher in the stock. Our thesis appears to be playing out as we continue to collect more positive evidence, and we hope to update you in the future on its continued progress.





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**Conclusion and Outlook**

In our 2019 year-end letter, we wrote, "…if the 4Q19 dynamics hold throughout 2020, we will need to have a very, very special stock-picking year to keep up with our benchmark." Obviously, market conditions did not hold as the pandemic wreaked havoc on stock prices, albeit briefly, a mere two months later. However, the market that emerged in the Spring of '20 from the COVID-19 swoon created 4Q19 conditions on steroids. Despite strong stock selection that enabled us to produce strong relative results for the first ten months of the year, we warned in our third quarter 2020 letter that "…given our portfolio construction discipline of diversification, quality and valuation awareness, we acknowledge that it may grow increasingly difficult to keep up with the momentum and loss-making leadership of the present over the short-run." Unfortunately, these words were not in vain. November and December saw an extraordinary "low quality" surge in small-caps, driven by passive flows and a public exuberance for equity market risk-taking not seen since 1999.

Fortunately, the U.S. stock market of smaller capitalization securities is broad, providing our dedicated team the opportunity to build a portfolio that we believe remains diversified, disciplined, and of superior quality despite record-setting market valuations. In a world that is less about business "value" and more about "exposures," we believe the benefit to time arbitrage (long-term vs. short-term) may provide a significant competitive advantage. Thus, while it is difficult to ignore the current market gyrations, our gaze remains two to three years into the future as we strive to generate attractive risk-adjusted returns on behalf of our clients.

On a final note, we believe the act of committing other people's capital is a serious one. (We also happen to be meaningful investors in this strategy, so we do consume our own cooking.) However, investing is, at times, described as a great game. Using this vocabulary, the rules of investing feel radically changed over the last five to ten years. Against this altered backdrop, we have adopted a "bend but don't break" mentality to execute our philosophy, investment criteria, and portfolio construction. We have remained mainly steadfast to the investment pillars laid down in April of 2006 – the inception of present management – but have adopted as best we can to "win" in the extraordinary environment that engulfs us. In a market that feels more governed by its evolved structure than fundamental value, we solely focus on the things that we control – people, philosophy, and process. Yet, it may be in the next couple of years that three more Ps will also be required to generate sound returns on behalf of our clients - prudence, preparation, and patience. These words may not be part of the investment lexicon today, but they certainly might be useful in the future once again. Through this discipline, we strive to produce a sound, all-weather investment option in the U.S. small-cap space.

The year gone by was incredible, challenging, and, for all too many, heartbreaking. We are greatly indebted for your trust, interest, and support of this strategy. We sincerely hope for a return to some sense of normalcy in 2021. Stay safe!

# AMERICAN FUND REVIEW AND OUTLOOK

**U.S. Small-Cap Fundamental Value Strategy**

During 2020, small cap company share prices experienced both one of their worst quarters in history (Q1) and their best quarter (Q4). The COVID-19 pandemic and the associated economic fallout drove both phenomenon—first, in response to business shutdowns early in the year and then in response to the announcement of a vaccine. The fourth quarter also included concerns surrounding the potential political impact from the U.S. election and a change in administration. Although our initial thought was that small caps would be pressured by the negative impact of potentially higher corporate tax rates, they responded, instead, to the possibility of ongoing and significant fiscal stimulus. Political discussions, though, were quickly overshadowed by the announcement in early November of a vaccine that had an extremely high efficacy, and thus, the potential to bring some sense of normalcy back to the economy. Small cap value shares were up more than 19% in November alone. This rally continued into December despite rapidly growing case numbers and initial challenges surrounding the vaccine rollout. While small cap value shares outperformed both the growth and larger cap segments of the market, they still trailed meaningfully for the year.

The Brown Advisory Small-Cap Fundamental Value strategy was up materially on an absolute basis but trailed significantly relative to the Russell 2000® Value Index during the quarter, which was up more than 33% for the quarter. The bulk of the underperformance was during November. For the year, while our portfolio positioning allowed us to outperform during the second and third quarters, the underperformance during the fourth quarter caused the strategy to underperform for the full year.

The relative gap during the quarter was driven by several factors. Low return on equity (ROE), early cyclical and low share price stocks significantly outperformed the rest of the Index. While these companies saw their share prices decline during March, many saw their absolute share prices eclipse 2019 year-end levels despite an uncertain 2021 horizon. This phenomenon was exacerbated by small cap ETF flows that rivaled the historic activity level during the end of 2016. Ironically, we saw a heightened level of corporate actions during 2020, especially in the fourth quarter. While normally a boost to performance, several take outs before the rally turned out to be headwinds to performance for the quarter.

The relative underperformance for the quarter was consistent and across every sector. While our industrial investments performed well, their share prices could not keep pace with the dramatic rise in many highly leveraged, early-cycle industrial companies. We saw a similar phenomenon within the consumer sector. In both sectors, our portfolio investments posted solid operating performance. These consumer holdings were positioned to do well without the benefit of a vaccine or should the economy be challenged in 2021 following a vaccine rollout. We had four investments whose share prices were down for the quarter. Echostar and Simpson both have net cash on their balance sheets. Echostar continues to generate attractive economics on its consumer broadband satellite, while Simpson generated a record level of profitability driven primarily by higher new home sales and higher margins. Sprouts Farmers Markets continues to build out its store base and is taking concrete steps to boost its margins. Finally, Star Group repurchased 4% of its shares for the quarter (over 10% for the year). Low valuation, high current free cash flow from solid operating results and conservative balance sheets were clearly out of favor for the quarter.

For the year, sector results were slightly more positive, with financials and energy delivering solid positive relative performance, followed to a lesser extent by communication services and health care. A combination of being underweight and outperformance of our differentiated investments drove our energy results. Our financial investments benefited from a number of corporate actions, including the announced sale of National General and Waddell Reed, as well as Virtus' attractive acquisition of the U.S. mutual fund business of Allianz. Our decision to underweight banks following the steep rise in deferrals at the end of the first quarter also helped relative performance. Consumer discretionary, industrials and information technology were our three most challenging sectors for the year.

As mentioned, corporate actions were elevated for the year, but especially in the fourth quarter. Three companies, National General, Waddell Reed and Cardtronics, all announced that they agreed to be sold in cash transactions. Although they each received sizable premiums, the premiums did not match Index returns for the quarter. Also, this disparity was exacerbated as the Index continued to rise dramatically following the announcements and significantly contributed to our relative underperformance. GCI Liberty announced it would merge with Liberty Broadband in order to help reduce the sum-of-the-parts discount driven between the value of GCI's stake in Liberty Broadband and GCI's market capitalization. Virtus Investment Partners, South Mountain and Providence Service Corporation all announced sizable acquisitions too. While the markets applauded all three transactions, we felt Providence's pro forma debt level was too high and did not like the negative free cash of South Mountain's acquisition target.

# AMERICAN FUND REVIEW AND OUTLOOK

Activity levels were very high during the first quarter, as we worked to reposition the portfolio at the onset of the pandemic. During this process, we sold investments that we felt could not withstand a long-term pandemic or would not thrive in a likely challenging post-pandemic economic environment. While activity levels were more normal during the second and third quarters, corporate actions during the fourth quarter prompted another busy quarter. These sales included National General, Waddell Reed, Providence Service Corp. and South Mountain. We also began the sale process on Cardtronics shares as well as the recently received Liberty Broadband shares. We plan to conclude these sales early in 2021. In addition, we also sold one financial and one REIT. We made six new investments during the quarter including three financials, one industrial company, one energy and one consumer discretionary. Despite the rebound in share prices since the first quarter, we are still finding businesses with attractive cash flow profiles trading at discounted valuations.

The fourth quarter of 2020 was similar to other "lower-quality" rallies. During both the fourth quarter of 2016 and the second and third quarters of 2009, we saw the same types of markets, and our strategy underperformed materially. In each case, we trailed the Index by more than 1,000 basis points. In the subsequent period, we saw higher-quality companies within the Index regain their leadership, which allowed us to outperform. In many recent discussions, we have mentioned that we are excited by the prospects for our strategy in 2021. While we acknowledge the irony that M&A has actually been a drag on recent relative performance, we think recent activity highlights the attractive cash flows and relative valuations of our portfolio holdings to other market participants. While it is too soon to judge whether we are going to see a continuation of the rotation back to value, we feel our portfolio has attractive investment characteristics that will enable it to perform well and deliver attractive risk-adjusted returns for our investors.

# SECTOR DIVERSIFICATION

- We base our investment approach on individual company selection and incorporate a reasonable balance of sector exposures as part of our risk management process. Companies in the same economic sectors can vary as greatly in their business economics and profiles as companies in completely different sectors.

| GICS SECTOR | AMERICAN UCITS FUND (%) | RUSSELL 3000® INDEX (%) | DIFFERENCE (%) | AMERICAN UCITS FUND (%) | |
|---|---|---|---|---|---|
| | Q4'2020 | Q4'2020 | Q4'2020 | Q3'20 | Q4'19 |
| Communication Services | 9.81 | 9.73 | 0.08 | 10.13 | 8.86 |
| Consumer Discretionary | 16.26 | 12.57 | 3.69 | 17.00 | 14.93 |
| Consumer Staples | 4.54 | 5.89 | -1.36 | 4.71 | 3.90 |
| Energy | 1.83 | 2.14 | -0.31 | 1.67 | 3.32 |
| Financials | 14.28 | 10.72 | 3.56 | 13.02 | 18.61 |
| Health Care | 10.78 | 13.85 | -3.07 | 11.13 | 10.07 |
| Industrials | 9.36 | 9.04 | 0.32 | 9.27 | 10.53 |
| Information Technology | 28.11 | 27.38 | 0.73 | 27.61 | 24.28 |
| Materials | 0.43 | 2.86 | -2.43 | 0.36 | 0.35 |
| Real Estate | 2.53 | 3.17 | -0.64 | 3.03 | 2.47 |
| Utilities | 0.27 | 2.66 | -2.39 | 0.26 | 0.08 |
| [Cash] | 1.82 | -- | 1.82 | 1.81 | 2.60 |

Source: FactSet®. 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. The portfolio information provided is based on the Brown Advisory American UCITS Fund. Sector diversification includes cash and cash equivalents. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

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# QUARTER-TO-DATE ATTRIBUTION DETAIL BY SECTOR

| | AMERICAN UCITS FUND | | RUSSELL 3000® TOTAL RETURN INDEX | | ATTRIBUTION ANALYSIS | | |
|---|---|---|---|---|---|---|---|
| GICS SECTOR | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | ALLOCATION EFFECT (%) | SELECTION & INTERACTION EFFECT (%) | TOTAL EFFECT (%) |
| Communication Services | 10.32 | 15.76 | 9.81 | 15.03 | -- | 0.09 | 0.09 |
| Consumer Discretionary | 16.67 | 6.72 | 12.42 | 14.66 | -0.01 | -1.24 | -1.26 |
| Consumer Staples | 4.52 | 6.76 | 6.13 | 7.11 | 0.11 | -0.04 | 0.08 |
| Energy | 1.77 | 21.84 | 2.05 | 29.16 | -0.03 | -0.12 | -0.15 |
| Financials | 13.81 | 24.26 | 10.36 | 24.83 | 0.33 | -0.09 | 0.24 |
| Health Care | 10.89 | 15.90 | 14.09 | 10.25 | 0.13 | 0.60 | 0.73 |
| Industrials | 9.54 | 16.21 | 9.07 | 18.10 | 0.02 | -0.17 | -0.14 |
| Information Technology | 27.24 | 15.18 | 27.10 | 13.96 | 0.02 | 0.28 | 0.31 |
| Materials | 0.41 | 29.16 | 2.85 | 17.48 | -0.07 | 0.04 | -0.03 |
| Real Estate | 2.75 | -3.87 | 3.27 | 9.29 | 0.03 | -0.40 | -0.37 |
| Utilities | 0.26 | 13.52 | 2.85 | 7.90 | 0.15 | 0.01 | 0.17 |
| [Cash] | 1.82 | 0.02 | -- | -- | -0.26 | -- | -0.26 |
| **Total** | **100.00** | **14.08** | **100.00** | **14.68** | **0.43** | **-1.04** | **-0.61** |

- Attribution is a tool that calculates the effect of sector allocation and stock selection relative to market and sector benchmarks of performance. This tool does not reflect how we manage investments, and we believe it has meaningful limitations, but it is frequently requested, so we share it for that reason.
- Consumer discretionary was the biggest detractor to relative performance for the quarter whilst health care – in particular stock selection within the sector – was the top contributor to relative performance.

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Fourth Quarter 2020

# YEAR-TO-DATE ATTRIBUTION DETAIL BY SECTOR

| | AMERICAN UCITS FUND | | RUSSELL 3000® TOTAL RETURN INDEX | | ATTRIBUTION ANALYSIS | | |
|---|---|---|---|---|---|---|---|
| GICS SECTOR | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | ALLOCATION EFFECT (%) | SELECTION & INTERACTION EFFECT (%) | TOTAL EFFECT (%) |
| Communication Services | 9.99 | 31.00 | 9.78 | 24.94 | -0.05 | 0.85 | 0.79 |
| Consumer Discretionary | 16.04 | 23.70 | 11.39 | 47.32 | 1.24 | -3.38 | -2.14 |
| Consumer Staples | 4.31 | 21.59 | 6.44 | 11.22 | 0.17 | 0.73 | 0.90 |
| Energy | 2.13 | -41.73 | 2.59 | -33.26 | 0.33 | -0.37 | -0.04 |
| Financials | 14.56 | 3.79 | 11.06 | -2.14 | -1.12 | 1.04 | -0.08 |
| Health Care | 10.79 | 23.44 | 14.55 | 18.70 | -0.01 | 0.67 | 0.66 |
| Industrials | 9.25 | 9.54 | 8.98 | 12.76 | -0.08 | -0.53 | -0.61 |
| Information Technology | 26.84 | 38.67 | 25.79 | 46.26 | 0.47 | -2.10 | -1.64 |
| Materials | 0.43 | 13.38 | 2.75 | 19.65 | 0.01 | -0.07 | -0.07 |
| Real Estate | 2.96 | 9.66 | 3.59 | -4.7 | 0.17 | 0.61 | 0.78 |
| Utilities | 0.16 | -3.73 | 3.08 | -0.29 | 0.77 | -0.01 | 0.76 |
| [Cash] | 2.54 | 0.36 | -- | -- | -0.50 | -- | -0.50 |
| **Total** | **100.00** | **19.17** | **100.00** | **20.89** | **1.38** | **-2.57** | **-1.19** |

Source: FactSet. 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. Total portfolio return figures provided above reflect the sum of the returns of the equity holdings in the representative account portfolio due to price movements and dividend payments or other sources of income, and includes cash. The portfolio information provided is based on the Brown Advisory American UCITS Fund. Sectors are based on the Global Industry Classification Standard (GICS) classification system. Sector attribution includes cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

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# QUARTER-TO-DATE TOP FIVE CONTRIBUTORS TO RETURN

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*American UCITS Fund Top Five Contributors*

| | NAME | DESCRIPTION | AVERAGE WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|---|
| BKNG | Booking Holdings Inc. | Provides online travel and related services | 2.08 | 30.2 | 0.59 |
| JPM | JPMorgan Chase & Co. | Provides investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management and private equity | 1.83 | 33.19 | 0.55 |
| AMP | Ameriprise Financial, Inc. | Provides financial planning, brokerage, asset management and insurance services to individuals, businesses and institutions | 2.00 | 26.87 | 0.53 |
| DIS | Walt Disney Company | Owns and operates television and radio production, distribution and broadcasting stations, direct-to-consumer services, amusement parks and hotels | 1.20 | 46.02 | 0.49 |
| GOOG | Alphabet Inc. Class C | Operates as a holding company with interests in software, health care, transportation and other technologies | 2.27 | 19.21 | 0.45 |

- Booking Holdings reported better-than-expected third quarter results, driven by an increase in domestic travel after the lockdowns earlier in the year. Profitability was also better than expected, as the company was able to reduce its advertising expense. We expect that the company will gain market share when travel recovers.
- JP Morgan's third quarter earnings exceeded analysts' estimates, as the company was executing well in the challenging economic environment. The positive announcements in November on the availability of COVID-19 vaccines drove the stock higher as investors anticipated improved economic activity in 2021. Following the conclusion of the Fed's second bank stress test in 2020, the company announced that it would buy back its stock in 2021.
- Ameriprise Financial grew its advice and wealth management and asset management businesses, which drove the company's core operating results, beating investors' expectations in the quarter. The company has strategically repositioned itself by selling non-core insurance assets and investing in the core advice and wealth management business, improving profitability and returns for its shareholders.
- Walt Disney Company reported strong growth in the number of subscribers for its Disney+ streaming service on the one-year anniversary of its launch. The announcements about the COVID-19 vaccines improved the outlook for theme park attendance, positively impacting the share price.
- Alphabet Inc. grew revenues 15% in the third quarter as advertising spending increased and online digital growth benefited all business segments (Search, YouTube, Cloud and Play). The company controlled expenses, thereby demonstrating operating margin leverage.

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# YEAR-TO-DATE TOP FIVE CONTRIBUTORS TO RETURN

*American UCITS Fund Top Five Contributors*

| | NAME | AVERAGE WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|
| AAPL | Apple Inc. | 2.91 | 82.31 | 2.18 |
| MSFT | Microsoft Corporation | 4.23 | 42.53 | 2.12 |
| PYPL | PayPal Holdings Inc | 1.90 | 116.51 | 1.91 |
| FB | Facebook, Inc. Class A | 3.43 | 33.09 | 1.57 |
| LOW | Lowe's Companies, Inc. | 2.93 | 36.41 | 1.36 |

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# QUARTER-TO-DATE BOTTOM FIVE CONTRIBUTORS TO RETURN

*American UCITS Fund Bottom Five Contributors*

| | NAME | DESCRIPTION | AVERAGE WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|---|
| BABA | Alibaba Group Holding Ltd. Sponsored ADR | Operates as an online and mobile commerce company | 2.39 | -20.83 | -0.55 |
| SBAC | SBA Communications Corp. Class A | Functions as real estate investment trust | 1.23 | -11.28 | -0.17 |
| LOW | Lowe's Companies, Inc. | Engages in the retail sale of home improvement products | 2.96 | -2.90 | -0.09 |
| CCI | Crown Castle International Corp | Acts as a real estate investment trust | 0.79 | -3.57 | -0.03 |
| SATS | EchoStar Corporation Class A | Provides digital broadcast operations and satellite services through its subsidiaries | 0.13 | -14.87 | -0.02 |

- Alibaba reported strong earnings with better-than-expected profit growth amid a continued recovery in consumer spending. However, the shares fell sharply in late December upon the announcement that China’s State Administration for Market Regulation (SAMR) was investigating Alibaba with respect to potentially violating the Anti-Monopoly Law. The company is specifically reviewing its alleged practice of forcing sellers to “Choose One of Two” platforms. Earlier in the quarter, the stock suffered when regulators halted the IPO of Ant Group, an affiliate company. While Chinese government intervention is a risk, we believe that the fundamental business impact may be limited. Following the earnings report, the Chinese government set forth draft rules targeting monopolistic practices by internet companies.
- Lowe’s reported same-store sales growth of 30% in the quarter, but due to investments in its stores, operating margin expansion fell short, disappointing investors, and the stock declined modestly.
- Crown Castle International and SBAC Communications, both wireless communications tower companies, provided a conservative outlook for 2021 in advance of the carriers’ (AT&T, T-Mobile, Verizon) fifth-generation mobile network, or 5G, build plans.
- Satellite operator Echostar’s multiple contracted despite resilient revenue and profit results.

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# YEAR-TO-DATE BOTTOM FIVE CONTRIBUTORS TO RETURN

*American UCITS Fund Bottom Five Contributors*

| | NAME | AVERAGE WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|
| DAL | Delta Air Lines, Inc. | 0.25 | -63.24 | -1.39 |
| SCHW | Charles Schwab Corporation | 0.38 | -27.42 | -0.84 |
| WFC | Wells Fargo & Company | 0.2 | -48.9 | -0.74 |
| BAC | Bank of America Corp | 2 | -11.62 | -0.73 |
| SU | Suncor Energy Inc. | 0.71 | -46.68 | -0.71 |

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# QUARTER-TO-DATE ADDITIONS

Brown ADVISORY Thoughtful Investing.

## *American UCITS Fund Portfolio Activity*

| SYMBOL | ADDITIONS | GICS SECTOR |
|---|---|---|
| ABCM | Abcam PLC Sponsored ADR | Health Care |
| AMWD | American Woodmark Corporation | Industrials |
| ANGI | ANGI Homeservices Inc Class A | Communication Services |
| CERT | Certara, Inc. | Information Technology |
| CHX | ChampionX Corporation | Energy |
| CHDN | Churchill Downs Incorporated | Consumer Discretionary |
| EBC | Eastern Bankshares, Inc. | Financials |
| FCN | FTI Consulting, Inc. | Industrials |
| THG | Hanover Insurance Group, Inc. | Financials |
| INFN | Infinera Corporation | Information Technology |
| LBRDK | Liberty Broadband Corp. Class C | Communication Services |
| MTG | MGIC Investment Corporation | Financials |
| VSTO | Vista Outdoor Inc | Consumer Discretionary |
| VRM | Vroom, Inc. | Consumer Discretionary |

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# YEAR-TO-DATE ADDITIONS

*American UCITS Fund Portfolio Activity*

| SYMBOL | ADDITIONS | GICS SECTOR |
|---|---|---|
| ABCM | Abcam PLC Sponsored ADR | Health Care |
| ACCD | Accolade, Inc. | Information Technology |
| AMWD | American Woodmark Corporation | Industrials |
| ADI | Analog Devices, Inc. | Information Technology |
| ANGI | ANGI Homeservices Inc Class A | Communication Services |
| BX | Blackstone Group Inc. Class A | Financials |
| BRKR | Bruker Corporation | Health Care |
| CARR | Carrier Global Corp. | Industrials |
| CERT | Certara, Inc. | Information Technology |
| CHX | ChampionX Corporation | Energy |
| CHDN | Churchill Downs Incorporated | Consumer Discretionary |
| CCOI | Cogent Communications Holdings Inc | Communication Services |
| FIX | Comfort Systems USA, Inc. | Industrials |
| CW | Curtiss-Wright Corporation | Industrials |
| DLTR | Dollar Tree, Inc. | Consumer Discretionary |
| EBC | Eastern Bankshares, Inc. | Financials |
| EGP | EastGroup Properties, Inc. | Real Estate |
| EHC | Encompass Health Corporation | Health Care |
| ENTG | Entegris, Inc. | Information Technology |
| ENV | Envestnet, Inc. | Information Technology |
| FGEN | FibroGen, Inc. | Health Care |
| FCN | FTI Consulting, Inc. | Industrials |
| GTY | Getty Realty Corp. | Real Estate |
| THG | Hanover Insurance Group, Inc. | Financials |
| HELE | Helen of Troy Limited | Consumer Discretionary |

| SYMBOL | ADDITIONS | GICS SECTOR |
|---|---|---|
| NARI | Inari Medical, Inc. | Health Care |
| INFN | Infinera Corporation | Information Technology |
| INTU | Intuit Inc. | Information Technology |
| KMPR | Kemper Corporation | Financials |
| LSCC | Lattice Semiconductor Corporation | Information Technology |
| LZB | LaZBoy Incorporated | Consumer Discretionary |
| LBRDK | Liberty Broadband Corp. Class C | Communication Services |
| MANT | ManTech International Corporation Class A | Information Technology |
| MTG | MGIC Investment Corporation | Financials |
| NVRO | Nevro Corp. | Health Care |
| NUAN | Nuance Communications, Inc. | Information Technology |
| OSH | Oak Street Health, Inc. | Health Care |
| ONTO | Onto Innovation, Inc. | Information Technology |
| OTIS | Otis Worldwide Corporation | Industrials |
| POR | Portland General Electric Company | Utilities |
| PGNY | Progyny, Inc. | Consumer Discretionary |
| KWR | Quaker Chemical Corporation | Materials |
| SMPL | Simply Good Foods Co | Consumer Staples |
| SFM | Sprouts Farmers Markets, Inc. | Consumer Staples |
| SPXC | SPX Corporation | Industrials |
| SUMO | Sumo Logic, Inc. | Information Technology |
| VEC | Vectrus Inc | Information Technology |
| VSTO | Vista Outdoor Inc | Consumer Discretionary |
| VRM | Vroom, Inc. | Consumer Discretionary |

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# QUARTER-TO-DATE DELETIONS

## *American UCITS Fund Portfolio Activity*

| SYMBOL | DELETIONS | GICS SECTOR |
|---|---|---|
| CHRS | Coherus BioSciences, Inc. | Health Care |
| GLIBA | GCI Liberty, Inc. Class A | Communication Services |
| HXL | Hexcel Corporation | Industrials |
| IART | Integra LifeSciences Holdings Corporation | Health Care |
| NGHC | National General Holdings Corp. | Financials |
| OCFC | OceanFirst Financial Corp. | Financials |
| OSW | OneSpaWorld Holdings Ltd. | Consumer Discretionary |
| PRSC | Providence Service Corporation | Health Care |
| SMMCU.U | South Mountain Merger Corp Units Cons of 1 Sh + 1/2 Wt | Financials |
| TRHC | Tabula Rasa Healthcare, Inc. | Health Care |
| WDR | Waddell & Reed Financial, Inc. Class A | Financials |
| XHR | Xenia Hotels & Resorts, Inc. | Real Estate |

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# YEAR-TO-DATE DELETIONS

*American UCITS Fund Portfolio Activity*

| SYMBOL | DELETIONS | GICS SECTOR |
|---|---|---|
| APPF | AppFolio Inc Class A | Information Technology |
| ARCC | Ares Capital Corporation | Financials |
| BBDC | Barings BDC, Inc. | Financials |
| BLKB | Blackbaud, Inc. | Information Technology |
| AVGO | Broadcom Inc. | Information Technology |
| BR | Broadridge Financial Solutions, Inc. | Information Technology |
| TAST | Carrols Restaurant Group Inc | Consumer Discretionary |
| CPF | Central Pacific Financial Corp. | Financials |
| SCHW | Charles Schwab Corporation | Financials |
| XEC | Cimarex Energy Co. | Energy |
| CHRS | Coherus BioSciences, Inc. | Health Care |
| CBPX | Continental Building Products, Inc. | Industrials |
| DAL | Delta Air Lines, Inc. | Industrials |
| DLX | Deluxe Corporation | Industrials |
| DBI | Designer Brands Inc. Class A | Consumer Discretionary |
| DESP | Despegar.com, Corp. | Consumer Discretionary |
| DKS | Dick's Sporting Goods, Inc. | Consumer Discretionary |
| FICO | Fair Isaac Corporation | Information Technology |
| GLIBA | GCI Liberty, Inc. Class A | Communication Services |
| HABT | Habit Restaurants, Inc. Class A | Consumer Discretionary |
| HEI | HEICO Corporation | Industrials |
| HSIC | Henry Schein, Inc. | Health Care |
| HXL | Hexcel Corporation | Industrials |
| HBMD | Howard Bancorp, Inc. | Financials |
| HUD | Hudson Ltd. Class A | Consumer Discretionary |

| SYMBOL | DELETIONS | GICS SECTOR |
|---|---|---|
| IART | Integra LifeSciences Holdings Corporation | Health Care |
| KAR | KAR Auction Services, Inc. | Industrials |
| KTB | Kontoor Brands, Inc. | Consumer Discretionary |
| KURA | Kura Oncology, Inc. | Health Care |
| LMRK | Landmark Infrastructure Partners LP | Real Estate |
| LIND | Lindblad Expeditions Holdings Inc | Consumer Discretionary |
| LDL | Lydall, Inc. | Industrials |
| MRVL | Marvell Technology Group Ltd. | Information Technology |
| MFA | MFA Financial, Inc. | Financials |
| MODV | ModivCare Inc. | Health Care |
| MRC | MRC Global Inc. | Industrials |
| NBHC | National Bank Holdings Corporation Class A | Financials |
| NGHC | National General Holdings Corp. | Financials |
| NP | Neenah Inc | Materials |
| OCFC | OceanFirst Financial Corp. | Financials |
| RTX | Raytheon Technologies Corporation | Industrials |
| RGS | Regis Corporation | Consumer Discretionary |
| SMMCU.U | South Mountain Merger Corp Units Cons of 1 Sh + 1/2 Wt | Financials |
| SPB | Spectrum Brands Holdings, Inc. | Consumer Staples |
| TRHC | Tabula Rasa Healthcare, Inc. | Health Care |
| VVI | Viad Corp | Industrials |
| WDR | Waddell & Reed Financial, Inc. Class A | Financials |
| WBS | Webster Financial Corporation | Financials |
| WFC | Wells Fargo & Company | Financials |
| WSBC | WesBanco, Inc. | Financials |
| XHR | Xenia Hotels & Resorts, Inc. | Real Estate |

Source: FactSet. 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. The portfolio information provided is based on the Brown Advisory American UCITS Fund. Sectors are based on the Global Industry Classification Standard (GICS) classification system. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

Fourth Quarter 2020

# PORTFOLIO CHARACTERISTICS

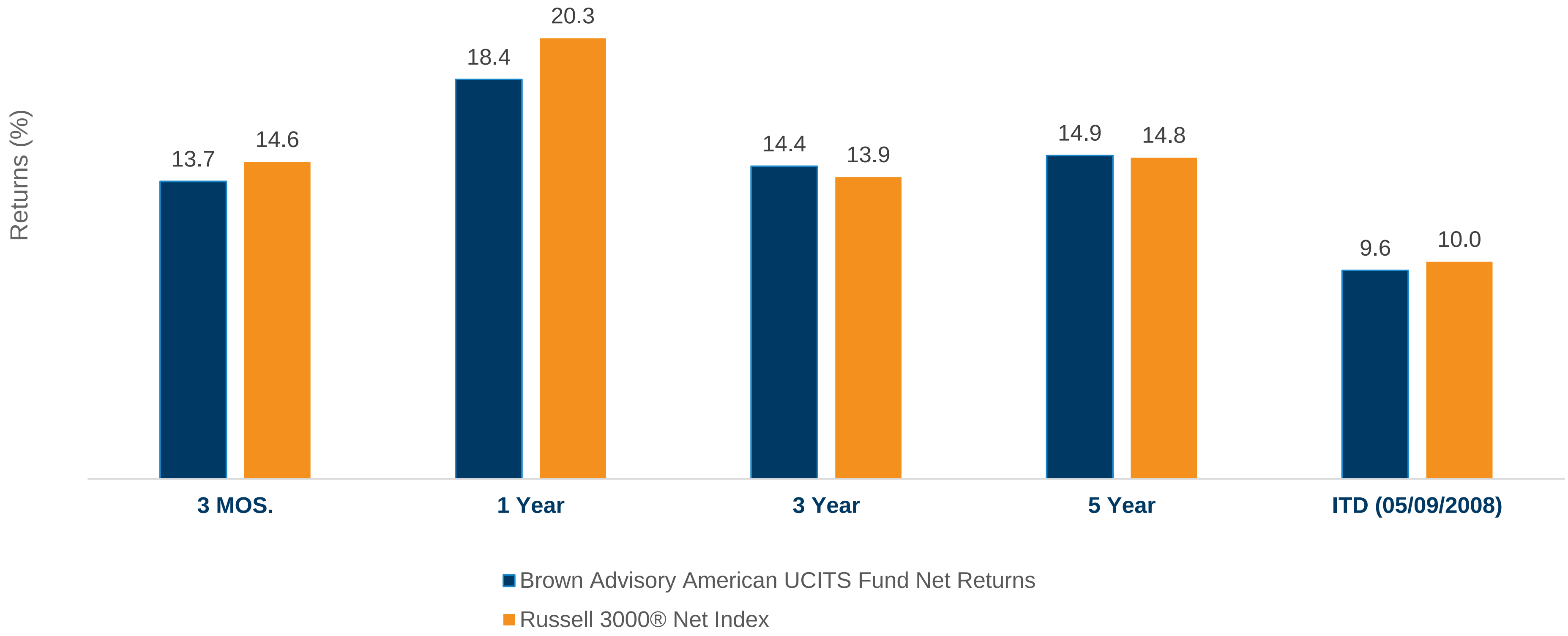
**As of 12/31/2020**

| | AMERICAN UCITS FUND | RUSSELL 3000® INDEX |
|---|---|---|
| Number of Holdings | 180 | 3,018 |
| Market Capitalization ($ B) | | |
| Weighted Average | $348.6bn | $384.4bn |
| Weighted Median | $77.7bn | $110.1bn |
| P/E Ratio (FY2 Est.) | 22.2x | 21.3x |
| Earnings Growth 3-5 Year Estimate | 13.9% | 13.2% |
| PEG Ratio | 1.6x | 1.1x |
| Dividend Yield | 0.89% | 1.52% |

Source: FactSet. The portfolio information provided is based on the Brown Advisory American UCITS Fund. Portfolio characteristics include cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# UCITS FUND PERFORMANCE

**As of 12/31/2020**




Source FactSet. All returns greater than one year are annualized. Past performance is not indicative of future results. The performance shown above reflects the Brown Advisory American UCITS Fund. The performance is net of management fees and operating expenses. All returns greater than one year are annualized. Past performance may not be a reliable guide to future performance. The American Fund was launched under the Dublin UCITS umbrella on 9th May 2008. Please see disclosure statements at the end of this presentation for additional information and a complete list of terms and definitions.

# TOP 10 PORTFOLIO HOLDINGS

**American UCITS Fund As of 12/31/2020**

## Top 10 Portfolio Holdings

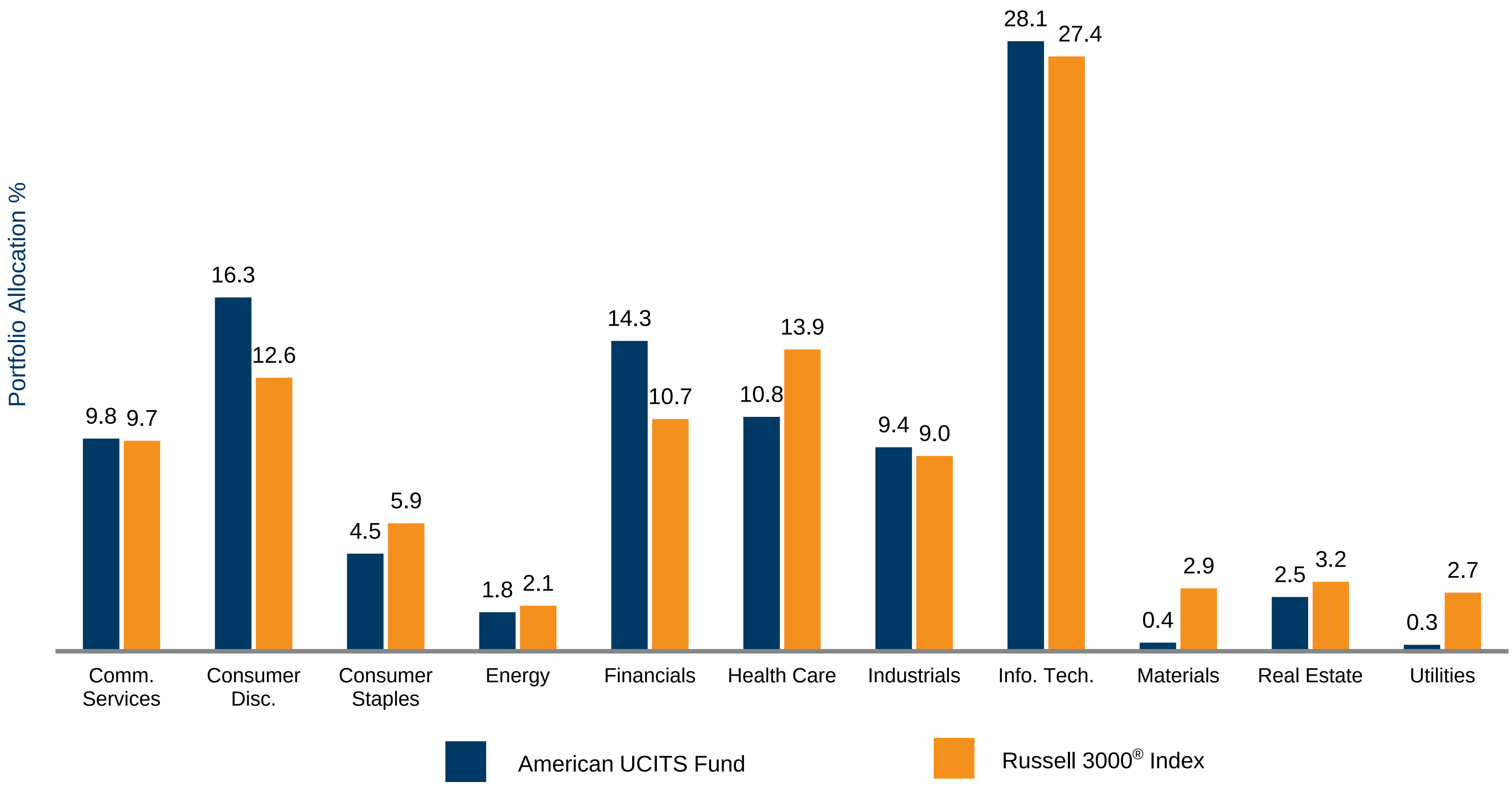
| TOP 10 HOLDINGS | | % OF PORTFOLIO |
|---|---|---|
| Visa Inc. Class A | | 4.2 |
| Mastercard Incorporated Class A | | 4.1 |
| Microsoft Corporation | | 4.1 |
| Alphabet Inc. Class A & C* | | 3.9 |
| Facebook, Inc. Class A | | 3.4 |
| Apple Inc. | | 3.1 |
| Lowe's Companies, Inc. | | 2.7 |
| Berkshire Hathaway Inc. Class B | | 2.6 |
| UnitedHealth Group Incorporated | | 2.4 |
| Edwards Lifesciences Corporation | | 2.4 |
| | **Total** | **32.9%** |

Source: FactSet®. *Alphabet, Inc. represents a 2.2% holding in Class C shares, and a 1.7% holding in Class A shares. 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. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. The portfolio information provided is based on the American Fund. Please see disclosure statements at the end of this presentation for additional information.

Fourth Quarter 2020

# SECTOR DIVERSIFICATION

**Global Industry Classification Standard (GICS) as of 12/31/2020**




Source: FactSet. The portfolio information provided is based on the Brown Advisory American UCITS Fund. Sector diversification includes cash and cash equivalents. Sectors are based on the Global Industry Classification Standard (GICS) classification system. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# DISCLOSURES, TERMS & DEFINITIONS

For institutional investors and professional clients only.

Past performance may not be a reliable guide to future performance and investors may not get back the amount invested. All investments involve risk. The value of the investment and the income from it will vary. There is no guarantee that the initial investment will be returned.

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. 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.

The **Russell 3000® Index** is a market capitalization weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities. Russell® and the Russell 3000® Index are trademark/service marks of The London Exchange Companies. The **Russell 2000® Value Index** measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure that new and growing equities are included and that the represented companies continue to reflect value characteristics. The Russell 2000® Value Index and Russell are trademarks of the London Stock Exchange Group Companies. The **Russell 2000® Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The **Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. Both indices are completely reconstituted annually. Russell® and other service marks and trademarks related to the Russell indexes are trademarks of the London Stock Exchange Group Companies.

The **S&P 500® Index** represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include market capitalization, financial viability, liquidity, public float, sector representation and corporate structure. An index constituent must also be considered a U.S. company. Standard & Poor's, S&P, and S&P 500® are trademarks/service marks of MSCI and Standard & Poor's.

An investor cannot invest directly into an index.

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Global Industry Classification Standard (GICS®) and "GICS" are service makers/trademarks of MSCI and Standard & Poor's.

Figures shown on sector diversification and quarterly attribution by detail slides may not total due to rounding.

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted.

The **Average Weight** of a position or sector refers to the daily average for the period covered in this report of a stock's value as a percentage of the portfolio.

The **Total Return** of an equity security is the sum of the return from price movement and the return due to dividend payments or other sources of income. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period.

**Allocation Effect** measures the impact of the decision to allocate assets differently than those in the benchmark.

**Selection and Interaction Effect** reflects the combination of selection effect and interaction effect. Selection effect measures the effect of choosing securities that may or may not outperform those of the benchmark. Interaction effect measures the effect of allocation and selection decisions (i.e., did we overweight the sectors in which we underperformed).

**Total Effect** reflects the combination of allocation, selection and interaction effects. Totals may not equal due to rounding.

**Contribution To Return** is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return to the reporting period.

**Market Capitalization** refers to the aggregate value of a company's publicly traded stock. Statistics are calculated as follows: Weighted Average: the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation); Weighted Median: the value at which half the portfolio's market capitalization weight falls above and half falls below; Maximum and Minimum: the market caps of the largest and smallest companies, respectively, in the portfolio.

**Earnings Growth 3-5 Year Estimate** is the average predicted annual earnings growth over the next three to five years based on estimates provided to Factset by First Call, I/B/E/S Consensus, and Reuters, calculated according to each broker's methodology.

**P/E / Growth Ratio,** or **PEG Ratio,** is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate.

**Dividend Yield** is the ratio of a stock's projected annual dividend payment per share for the fiscal year currently in progress, divided by the stock's price.

All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average.

# BROWN ADVISORY FUNDS PLC

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The Fund is a sub-fund of the Company, an umbrella fund with segregated liability between sub-funds. The Fund is authorised by the Central Bank of Ireland as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 as may be amended, supplemented or consolidated from time to time (the “Regulations”). The Company has appointed Brown Advisory (Ireland) Limited as its UCITS management company which is authorised by the Central Bank of Ireland pursuant to the Regulations and the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations 2019, as amended . The investment manager of the Fund is Brown Advisory LLC. The distributor of the Fund is Brown Advisory LLC, The Fund is a recognised collective investment scheme for the purposes of section 264 of the UK’s Financial Services and Markets Act 2000.

The Fund uses the Russell 3000® Net Index as a comparator benchmark to compare performance. The Fund is actively managed and is not constrained by any benchmark. The Russell 3000® Index measures the performance of the U.S. equity universe. It measures the performance of 3,000 publicly held U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market TheRussell 3000® Index is a trademark/service mark of the Frank Russell Company. An investor cannot invest directly into an index.

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