Brown ADVISORY
Thoughtful Investing.

2018 IMPACT REPORT

BROWN ADVISORY SUSTAINABLE GROWTH FUND

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Letter of Introduction from the Portfolio Managers

Brown Advisory is deeply committed to sustainable investing, with the goal of helping our clients generate attractive investment returns, align their investments with their values and make a positive impact on society with their capital.

Our clients are interested in learning more about the impact component of their sustainable investing strategies. To address this growing interest, we are pleased to issue our first, formal annual Impact Report for the Brown Advisory Sustainable Growth Fund.

The report includes a review of how we invest using innovative ESG and sustainability research, a discussion of the positive environmental and social outcomes being created by our portfolio companies, and a look at how we engage with portfolio companies and with the broader sustainable investing community.

We want to express our gratitude to our research team of Emily Dwyer, Amy Hauter, Katherine Kroll and intern Lisa Fillingame, who work tirelessly to ensure that our investment decisions are informed by solid ESG data and clear viewpoints about how that data may affect a company's prospects. Emily and Katherine were instrumental in the preparation of this report. We also wish to thank our firm's Sustainable Investing Advisory Board; we greatly value the outside perspectives of Dan Esty, Kate Gordon, Marty Kaplan and Mamie Parker, and their insight and guidance is essential to our work.

Finally, we are extremely grateful to CEO Mike Hankin, the senior leadership at our firm, our broader investment and strategic advisory teams, and in one way or another, every single one of our colleagues for their wholehearted support of sustainable investing principles and their eagerness to help build and advance our sustainable investing effort.

On their behalf, we are proud to present this Impact Report to our shareholders. We hope you find it informative, and we welcome a continuing conversation with you about the work we are doing.

Sincerely,

Karina Funk, CFA
Portfolio Manager

David Powell, CFA
Portfolio Manager

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

THE FUND'S INVESTMENT PHILOSOPHY AND PROCESS

Investment Philosophy & Research Approach

In managing the Brown Advisory Sustainable Growth Fund, we believe we can generate competitive, risk-adjusted returns over a full market cycle through a concentrated portfolio of companies with durable fundamental strengths, sustainable competitive advantages and compelling valuations.

The purpose of this report is to talk about the impact being generated by our portfolio companies, so we will not spend a great deal of time discussing how we use fundamental research to identify good investment candidates with attractive return potential. But we want to be clear: Sustainable research is wholly integrated with fundamental due diligence in our process. In our minds, we don't separate the two concepts. We believe that some of the most attractive, durable business models available in the large-cap equity universe are those with sustainable drivers at their core. Clean energy, health and wellness, and other sustainable trends are massive sources of **revenue growth** for many companies. Efficient operations that reduce the use of energy, water and other resources can lead to considerable **cost savings**. Companies that lead on environmental, social and governance (ESG) practices, or that help customers solve meaningful environmental or health challenges, are often able to greatly enhance their brand or **franchise value**. And in the end, we see revenue growth, cost savings and enhanced franchise value as the three most important levers that companies can pull to improve their long-term returns to shareholders.

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

Objectives & Investment Process

The Fund's return objective is clear—we seek to outperform the Russell 1000® Growth Index in a full market cycle.

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

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

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

INTEGRATING FUNDAMENTAL AND SUSTAINABLE RESEARCH

Our investment process places equal emphasis on the fundamental merits, sustainable business advantages and valuation picture for any company we consider for the portfolio. We only invest when we are confident on all three criteria.

IMPACT ANALYSIS: GENERAL THEMES AND COMPANY-SPECIFIC PROFILES

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

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

DIVERSIFICATION BY IMPACT THEME

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

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

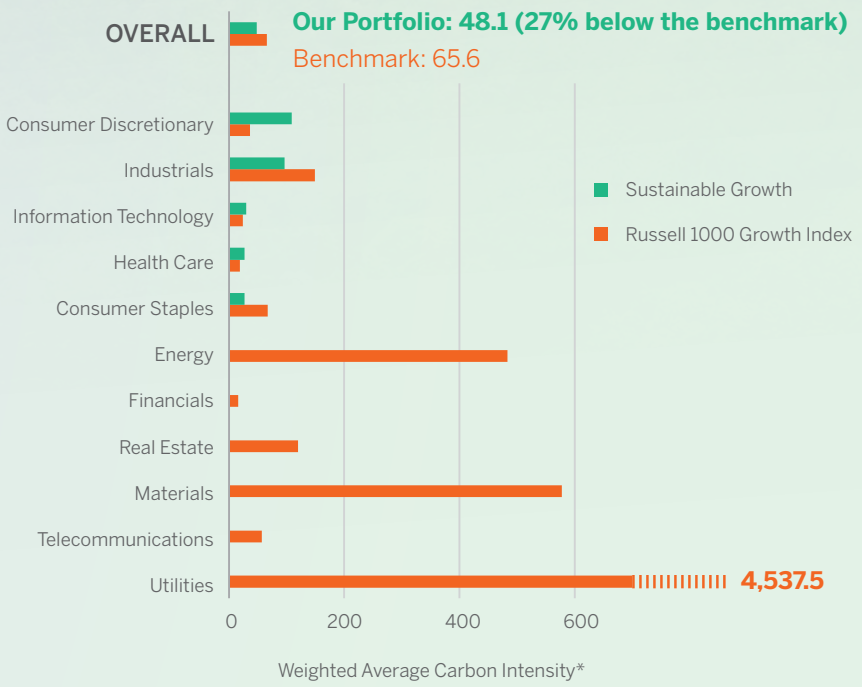
COMPANY-SPECIFIC SBA PROFILES

For many years we have provided to clients summaries of the SBAs of each company in our portfolio on a quarterly basis. On pages 8 and 9, we offer these summaries for our portfolio holdings as of Sept. 30, 2018.

EMISSIONS SNAPSHOT: CARBON INTENSITY OF PORTFOLIO VS. BENCHMARK

- Our portfolio's carbon intensity is 27% lower than that of our benchmark, the Russell 1000® Growth Index.
- By far the most notable driver of this result is our lack of investments in sectors like energy, materials and especially utilities, in which emissions are far higher than other sectors.
- J.B. Hunt is our most carbon-intensive holding. It drives approximately one-third of our portfolio's overall carbon intensity. However, it is far less carbon-intensive than the trucking companies with which it competes directly. Many of our carbon-intensive holdings similarly offer lower-emission solutions when compared to competitive alternatives.

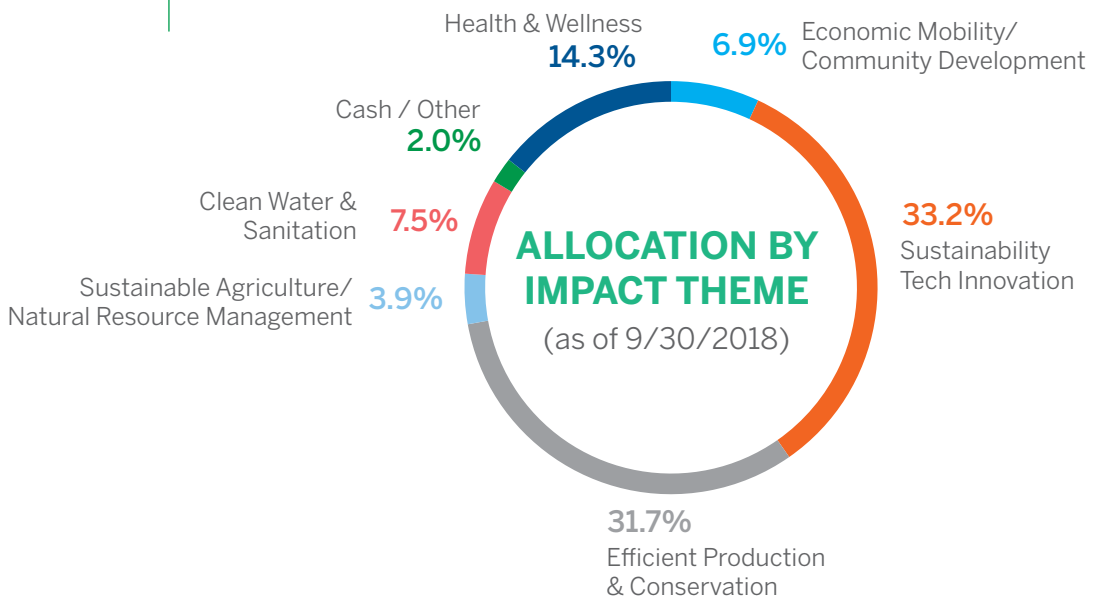
Weighted Average Carbon Intensity by Sector
(Data as of 9/30/2018)



Source: MSCI, using fund holdings data from U.S. Bank. *Weighted average carbon intensity data provided by MSCI. Carbon intensity measures the number of tons of CO2 emitted by a company per $1 million of revenue. Weighted average carbon intensity for a portfolio measures the aggregate carbon intensity of portfolio holdings, adjusted for the portfolio weightings of each holding. Sector breakdown depicted in the chart is based on sector classifications used by MSCI, and does not fully map to current GICS classification standards.

DIVERSIFICATION BY IMPACT THEME

We provide definitions below for the 10 major impact themes we identify in our firm's standardized impact reporting. Currently, we invest in companies generating impact across six of these themes.



DESCRIPTIONS OF IMPACT THEMES

Economic Development & Social Inclusion

Affordable housing	Offering housing options to low- and moderate-income families.
Economic mobility & community development	Increasing employment opportunities and financial inclusion for underserved communities.
Education	Reducing barriers to education for underserved groups.
Diversity, inclusion, equality	Supporting race and gender equity; empowering marginalized populations.

Health & Well-Being

Health & wellness	Promoting health and well-being, and improving access to and quality of health care.
Clean water & sanitation	Improving access to clean drinking water and sanitation services; solving infrastructure challenges; managing freshwater ecosystems.

Environment

Sustainable technology innovation	Innovating products and services that deliver sustainability results (e.g., energy-efficient products, sustainable transportation).
Efficient production & conservation	Reducing use of energy or raw materials, increasing use of renewables, etc., through internal operations.
Clean energy	Developing, operating or delivering clean energy from wind, solar and other renewable sources.
Sustainable agriculture/ natural resource management	Responsibly managing natural resources, minimizing or reversing land degradation, and protecting biodiversity.

Source: U.S. Bank, Brown Advisory analysis. Numbers may not total to 100% due to rounding.

COMPANY-SPECIFIC IMPACT PROFILES (INFORMATION AS OF 9/30/18)

COMPANY	IMPACT THEME	IMPACT SUMMARY
A.O. Smith Corp.	**Clean Water and Sanitation**	A.O. Smith is a global leader in residential and commercial water heating. Its products have high thermal efficiency and offer customers rapid payback periods based on energy savings. In emerging markets, its affordable in-home air purification products and residential water treatment solutions have substantial market share. *(See page 11 for more on A.O. Smith.)*
Adobe	**Sustainable Technology Innovation**	Adobe is the market leader in digital content creation, and its solutions help customers around the world save money and resources. Adobe states that its document cloud can generate cost savings of over 90% for customers vs. a print-based document management system.
Alphabet, Inc.	**Efficient Production and Conservation**	Alphabet (the parent company of Google) is a deep practitioner of sustainability internally, and its efforts have impact beyond its corporate walls. Its data centers are materially more energy-efficient than the industry average, a strategic advantage for the company and a tangible benefit for society. The company has been carbon neutral since 2007, and in 2017, its operations were powered entirely by renewable energy.
Amazon.com	**Efficient Production and Conservation**	The company's cloud-computing unit Amazon Web Services (AWS) is a recognized leader in cloud services. AWS auctions computation power in real time, allowing it to more evenly distribute its servers' loads and process more data on less hardware. AWS also empowers customers to generate positive impact, helping them (for example) design more efficient clinical trials, improve safety and reduce patient burdens. Amazon recently acquired Whole Foods Market, a leading retailer of organic and natural foods.
American Tower Corporation	**Sustainable Technology Innovation**	American Tower is a leading wireless tower operator with a strong environmental compliance track record. Its renewable energy generation capabilities built into its towers are a differentiator—its customers can leverage this technology, rather than placing their own inefficient generators on-site for backup power. This offering has helped the company earn a strong reputation in international markets and grow its market share.
Aptiv PLC	**Sustainable Technology Innovation**	Aptiv offers a variety of components to vehicle manufacturers that satisfy tighter safety, emissions and fuel economy regulations. Aptiv is a leader in active safety technology, which helps to prevent vehicle collisions. Moreover, the company is dedicated to sustainable operations and has achieved significant reduction in waste, energy use and water use.
Autodesk Inc.	**Sustainable Technology Innovation**	Autodesk's design software enables its customers to design, visualize and simulate buildings and products in a more energy- and resource-efficient manner. Using Autodesk, customers can more accurately predict building performance, reduce construction waste and improve construction productivity, as well as reduce material use in product manufacturing, improve energy efficiency of products and improve factory processes.
Ball Corporation	**Efficient Production and Conservation**	Ball is a leader in metal packaging solutions; aluminum cans have taken share from glass around the world over the past decade, largely due to superior recyclability. Ball's internal sustainability initiative dates back to 2006 and has produced meaningful results. *(See page 10 for more on Ball.)*
Danaher Corp.	**Clean Water and Sanitation**	Danaher's environmental businesses help clients reduce operating costs, material waste and environmental impact. Offerings include water analysis and water quality solutions, water filtration and treatment, and services that reduce energy and water usage at manufacturing sites. Many of these business are notable growth drivers for Danaher.
Ecolab Inc.	**Sustainable Technology Innovation**	Ecolab is a leading provider of cleaning, food safety and health protection products and services for the food, energy, health care, industrial and hospitality markets. The company helps its customers cut energy and materials costs, improve efficiency, and boost bottom-line results.
Edwards Lifesciences Corp.	**Health and Wellness**	Edwards Lifesciences is a leader in innovative treatments for heart disease. The company's transcatheter aortic valve replacement is less invasive than traditional open-heart surgery and often a lifesaving option for patients deemed too high risk for traditional surgery. The company's technologies effectively increase survival probability, shorten hospital stays and lower readmission rates, and provide patients with a significantly higher quality of life after surgery.
Facebook Inc.	**Efficient Production and Conservation**	Facebook is a leader in minimizing the environmental impact of infrastructure technology. It has saved over $2 billion in operating and capital expenses over a three-year period with low-power servers, efficient data center design and proactive purchasing of renewable energy. Its efforts have had meaningful downstream influence across the technology industry.
Fortive	**Efficient Production and Conservation**	Fortive focuses on instrumentation, transportation and automation technologies, many of which help customers improve energy efficiency, meet or exceed safety and security requirements, and adhere to evolving environmental regulations.
The Home Depot Inc.	**Efficient Production and Conservation**	Environmentally sustainable product options are the fastest-growing category in Home Depot's product assortment and are becoming a meaningful part of the company's revenue mix. The company is also implementing systems to improve the efficiency of its logistics network, resulting in reduced truckloads and significant cost savings.
IDEXX Laboratories	**Clean Water and Sanitation**	IDEXX is the leading provider of veterinarian diagnostic, reference lab and consulting services. The company's water business provides testing solutions for detection of *E. coli* and other microbials, helping to ensure water safety for 2 billion people around the world. IDEXX also sells diagnostic tests used to manage the health of livestock and poultry to ensure the quality and safety of milk and food; for example, the company's principle dairy product detects antibiotic drug residue in milk.
Intuit Inc.	**Efficient Production and Conservation**	The market leader in personal and small business financial management software, Intuit offers numerous ways for clients to reduce waste through electronic tax, online payroll and email invoice software. Intuit has been a carbon-neutral company since 2015 and was one of the first large corporations to transition to cloud computing (Amazon Web Services) for their IT infrastructure. Intuit has a goal to move all of its IT to AWS over the next few years.
J.B. Hunt Transport Services Inc.	**Efficient Production and Conservation**	J.B. Hunt is a leader in intermodal transportation services (i.e., moving freight via a combination of railroad and trucking). The company helps its customers achieve significant fuel cost savings and reduced carbon emissions, in comparison to the trucking-only shipping solutions with which J.B. Hunt competes.

COMPANY-SPECIFIC IMPACT PROFILES (INFORMATION AS OF 9/30/18)

COMPANY	IMPACT THEME	IMPACT SUMMARY
Marriott International	**Efficient Production and Conservation**	Marriott's environmentally sustainable operations are driving cost savings and enhancing the company's brand among both guests and corporate conference and event customers. Marriott has been a sustainability leader in hospitality for many years; it was the first major hotel chain to calculate its carbon footprint, and launched its expansive energy and water efficiency initiatives in 2007.
Marvell Technology Group Ltd.	**Sustainable Technology Innovation**	Marvell is a leading fabless semiconductor provider focused on storage, networking and connectivity. It is a pioneer in low-power, low-cost Ethernet transceivers and storage controllers. Put simply, its chip designs contribute greatly to reducing the energy consumption of the devices they power.
Mettler-Toledo International Inc.	**Clean Water and Sanitation**	Mettler-Toledo is a leading manufacturer of a wide range of precision instruments and systems used in the laboratory, drug, industrial and food retailing industries. Its food safety and water treatment businesses help customers avoid product recalls and unsafe products, and are both key growth drivers for the company.
Microsoft Corporation	**Sustainable Technology Innovation**	Microsoft is driving impact in several ways. Its Azure cloud-computing platform greatly reduces the need for customers to operate their own infrastructure and has helped customers reduce their per-user carbon footprint by as much as 90%. It has been carbon-neutral since 2012. *(See page 10 for more on Microsoft.)*
Monolithic Power Systems Inc.	**Sustainable Technology Innovation**	Monolithic Power Systems makes integrated circuits using unique technology that combines drivers, logic and power on one piece of silicon (vs. three separate semiconductor components). As a result, its products offer a strong combination of energy efficiency, cost-effectiveness and ease of implementation.
Nordson Corporation	**Sustainable Technology Innovation**	Nordson is a leader in precision adhesive and coating dispensing technology. Its advanced solutions include tools used for manufacturing solar cells, LEDs and water treatment applications. Its products help its customers improve resource efficiency and yield, and enhance the overall quality and durability of their end products.
Red Hat Inc.	**Sustainable Technology Innovation**	Red Hat is a global leader in open-source software solutions for the enterprise. One reason its Linux operating system is a preferred choice for enterprises is that it uses less power and hardware to deliver the same results as competing operating systems. (During the fourth quarter of 2018, IBM announced its intent to acquire Red Hat.)
Salesforce.com Inc.	**Efficient Production and Conservation**	Salesforce.com is a leading customer relationship management software company and a global leader in cloud computing. It allows its customers to avoid many of the costs and risks inherent with management of their own infrastructure. Salesforce now provides a carbon-neutral cloud solution for all customers.
The TJX Companies Inc.	**Efficient Production and Conservation**	TJX is a leading off-price retailer of apparel and home products. The company has consistently implemented industry-leading energy reduction and waste minimization practices at its facilities. TJX has also shifted to using fuel-efficient intermodal transport (moving freight via a combination of railroad and trucking), and through its logistics efficiency efforts, the company has been able to significantly reduce the amount of total shipments.
Thermo Fisher Scientific Ltd.	**Health and Wellness**	A leader in producing emissions monitoring, radiation detection and water quality testing equipment, Thermo Fisher provides strategic supply chain services that help its biopharmaceutical clients comply with regulations, produce products safely and operate more efficiently. *(See page 11 for more on Thermo Fisher.)*
Tyler Technologies Inc.	**Economic Mobility and Community Development**	Tyler Technologies is a leading provider of software for the public sector, helping local governments handle information and data, and effectively serve their constituents. Tyler's e-filing business converts many paper-based processes to electronic ones, greatly reducing costs and paper usage.
Unilever NV	**Sustainable Agriculture and Natural Resource Management**	Unilever is a leading global consumer goods company. Its sustainable living brands—ranging from B-Corp certified brands, such as Ben and Jerry's and Seventh Generation, to broader global brands, like Dove and Lipton—are growing faster than the rest of the business and accounting for over half of its growth. CEO Paul Polman is a globally recognized leader on sustainable corporate transformation.
UnitedHealth Group	**Health and Wellness**	UnitedHealth provides health care coverage, software and data consultancy services. Its Optum software gives customers analytical insight that helps drive higher quality, increased efficiency, reduced patient health risks and improved clinical performance.
Verisk Analytics Inc.	**Sustainable Technology Innovation**	Verisk is a leading provider of climate and environmental risk data to the insurance industry. Its climate data provision solution was once a small project that provided data to the government, but today, that solution is a thriving business, fueled by strong demand from insurers around the world.
Visa	**Economic Mobility and Community Development**	Visa is a key enabler of financial services in emerging markets, making many services universally available to people via mobile phone. Access to Visa's global payments system is improving the flow of goods and services in emerging markets, ultimately creating major societal benefits and a powerful platform for Visa's future growth.
Welbilt Inc.	**Sustainable Technology Innovation**	Welbilt is a leading commercial food service equipment company. It designs connected and energy-efficient cooking, food preparation, refrigeration and other equipment for restaurants and the food processing industry, and helps customers improve quality control and food safety while reducing energy, water and labor costs.
West Pharmaceutical Services Inc.	**Health and Wellness**	West Pharmaceutical is a leading manufacturer of packaging and delivery systems for injectable drugs and health care products. West's products and services promote the safety, purity and efficacy of the world's pharmaceutical drug supply. The company's high-quality products are designed to reduce particulates and defects (which can lead to wasteful product recalls), and to ensure consistency of medication delivery.

Source for information on pages 8 and 9: Brown Advisory analysis. 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 CASE STUDIES FROM THE PORTFOLIO

In the examples selected below, we highlight sustainable strategies and initiatives at various companies that are producing tangible social and environmental impact.

Ball

INDUSTRY: Materials

IMPACT THEME: Efficient Production and Conservation

SBA: Cost Savings

Ball is a leading global supplier and innovator in the metal packaging solutions market. A layperson might describe Ball as a "tin can" company, and indeed, Ball manufactured over 100 billion cans in 2017. But Ball also offers a diverse and environmentally friendly set of packaging solutions for many end markets. Ball's positive impact stems from both the inherent advantages of aluminum packaging vs. glass or plastic and its own innovations in improving the sustainability of its offerings.

40%

Since the 1970s, Ball has reduced the weight of its standard 12-ounce aluminum cans by more than 40%, greatly reducing energy use and lowering costs across beverage supply chains worldwide.

Aluminum cans, simply put, are an ideal packaging option from an environmental perspective. Plastic is made to last forever, but 33% of it is used only once, and only 8% is recycled. Americans alone discard more than 30 million tons of plastic each year, and the downstream impact on human and ecosystem health is immense. In contrast, aluminum is infinitely recyclable, and thanks to proactive recycling programs around the world, the average aluminum can produced today contains 68% recycled content. Producing recycled aluminum cans uses about 5% of the energy required to produce cans from virgin materials.

Another key differentiator for aluminum packaging is its light weight. About 34 modern aluminum cans weigh 1 pound. Lower weight translates to meaningfully lower costs and energy usage in distribution. Ball is a big reason that cans are so lightweight today—through continuous innovation, Ball reduced the weight of its 12-ounce cans by 40% since the 1970s, and its efforts have helped many other companies achieve their sustainability goals. Ball has been committed to sustainability for many years; it issued its first sustainability report in 2008, and during the 21st century, Ball has greatly reduced its impact in terms of energy use, pollution and waste.

Microsoft

INDUSTRY: Information Technology

IMPACT THEME: Sustainable Technology Innovation

SBA: Revenue Growth; Enhanced Franchise Value

For most of its history, Microsoft has been a nearly universal presence in most of our lives. The company's legacy operating systems and software businesses are stable, while its cloud-computing business is growing extremely quickly and has become a powerful growth driver for the firm overall.

Microsoft's Azure cloud-computing solution frees customers and developers from intense management of on-premise hardware and software, and helps them drastically reduce energy usage. According to the company, moving enterprise workloads from client-side infrastructure to the Azure cloud reduces a customer's energy usage by at least 90% for small deployments, 80% for medium deployments and 50% for large deployments.

50–90%

Microsoft states that its Azure cloud-computing platform reduced energy usage for large client deployments by up to 50% and by up to 90% for smaller deployments.

Microsoft has also been a 100% carbon-neutral operation since 2012, thanks to ongoing energy and emission reduction efforts as well as the implementation of its own innovative carbon fee. Microsoft charges each business unit an internal tax based on estimated energy usage, carbon emissions and prevailing electricity prices. The fees go into a common fund that invests in environmental sustainability/efficiency improvement projects. The initiative currently generates about $10 million in cost savings per year, and the company expects this to ramp up in the future as improvements stack up over time. The carbon fee has been instrumental in spreading sustainability across the company and embedding sustainable thinking into Microsoft's corporate culture.

Source: Microsoft and Ball Corp. Industries identified for each company are based on the GICS sector classification system. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients.

Thermo Fisher Scientific

INDUSTRY: Health Care

IMPACT THEME: Health and Wellness/ Sustainable Technology Innovation

SBA: Revenue Growth

Thermo Fisher was formed from the 2006 merger of two firms, Fisher Scientific and Thermo Electron, each with storied histories of technological innovation. The company is a leader in the fields of high-end analytical instruments, laboratory services and equipment, and specialty diagnostics for a wide variety of life sciences, health care and industrial customers. Its offerings help customers monitor and reduce emissions, ensure water quality, and broadly operate in a more sustainable manner.

3 billion metric tons

Thermo Fisher's systems currently monitor more than 3 billion metric tons of CO2 emissions per year—equal to nearly 8% of worldwide emissions from fossil fuels.

Thermo Fisher is a market leader in emission-testing equipment, such as mass spectrometers. As emission regulations strengthen around the world, more companies are accessing Thermo Fisher's technology to ensure compliance. Leading energy providers around the world currently deploy Thermo Fisher solutions to monitor more than 3 billion metric tons of CO2 emissions each year. The company is often first to market with solutions to specific new regulations, which greatly aids energy producers that have an urgent need to comply.

Thermo Fisher also offers high-efficiency laboratory equipment and water testing devices, which should see widespread adoption as global energy and water demand increases. A notable long-term opportunity for the company—in terms of both growth and impact—is its strong and growing presence in Chinese markets. Its emission-testing business in China is growing rapidly, and it recently joined the China Association of Environmental Protection Industry. We expect that Thermo Fisher will be an important role player in China's efforts to rein in emissions over time.

A.O. Smith

INDUSTRY: Industrials

IMPACT THEME: Clean Water and Sanitation/ Sustainable Technology Innovation

SBA: Revenue Growth; Enhanced Franchise Value

Water quality and quantity are persistent problems for countries around the world, and especially in China. According to the World Bank, China has 21% of the world's population but only 6% of its freshwater resources, much of it contaminated or untreated. The World Bank identifies responsible water management as a primary key to China's sustainable development.

A.O. Smith, the North American leader in residential and commercial water heaters, leads the Chinese residential market. It is responsible for over 25% of the entire water heater market and 35% of premium electric heaters. By creating products with superior thermal efficiencies, A.O. Smith is able to increase energy efficiency and reduce operating costs for its customers in a market that is increasingly demanding more energy-efficient products.

50% reduction

A.O. Smith's reverse osmosis membrane technology lets it build water filtration systems that cut water losses in half vs. older technologies.

As it relates to solving for the twin problems of water quality and scarcity, A.O. Smith uses its patented reverse osmosis membrane technology to bring clean water to emerging markets with heavily polluted water sources in such a way that reduces water losses by 50%. As of 2018, solutions based on this technology represented over 90% of A.O. Smith-branded water treatment sales. A company plant in Nanjing, China, modified its pretreatment processes to find an alternative to phosphorus pretreating. This innovation not only reduced chemical discharges but also improved the corrosion resistance of water heater tanks.

Source: Thermo Fisher and A.O. Smith. Industries identified for each company are based on the GICS sector classification system. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients.

SHAREHOLDER ENGAGEMENT

Shareholder engagement is a broad term referring to discussions or negotiations between a company and a shareholder about the company's activities and practices. When it comes to engagement, we are "bottom-up" thinkers; as part of the detailed, fundamental due diligence we conduct on existing and potential portfolio holdings, we often discuss specific ESG issues with management teams within the context of each company's specific circumstances.

While our portfolio companies already embrace certain sustainable strategies and initiatives, we prefer to invest in companies whose management teams are open-minded and eager to consider new ideas. As such, our engagement conversations are typically collaborative and evolve in content over time. On a number of occasions, management teams have asked us to engage with them about various sustainable initiatives they are considering.

Case Study: Renewable Energy Procurement

If a company stores and transmits large volumes of information online, by necessity, it consumes large volumes of electricity. According to *Nature*, the international science journal, data centers contribute about 0.3% of the world's carbon emissions, and the IT ecosystem (devices, networks and data centers) contributes more than 2%–a footprint on par with the airline industry. And global data traffic growth shows no signs of slowing down.

We have seen how plans for renewable energy procurement can drive meaningful value for shareholders of data-intensive companies. Google and Microsoft have both invested meaningfully in energy efficiency planning and renewable sourcing, lowering costs and enhancing brand value in both cases.

We like to see companies in this space focus first on reducing energy consumption and then turn to clean energy strategies. Akamai, a well-regarded leader in content delivery network services (and a former portfolio holding of ours), impressed us with its ability to hold energy usage fairly flat while its data volumes grew rapidly, so we reached out to learn about management's thinking with regard to renewable energy sourcing. At the time, Akamai did not have comprehensive plans in place to integrate renewable energy into its operations, and it was fielding a growing number of questions from customers about the lack of renewable energy in its energy mix. Spurred by this "wake-up call," and guided in part by conversations with us and with other investors, the company moved quickly on the issue. Within one year, it had launched a renewable energy procurement program with a clear course of action and ambitious, quantified targets.

Case Study: Sustainability Disclosure

Increased and improving ESG-related disclosure has been a primary focus for sustainable investors around the world for at least two decades. Disclosure can work to build shareholder confidence, lift a company's reputation and sometimes improve operational efficiency by helping companies identify areas for improvement. It also enables investors to evaluate a company's progress and inform their investment decisions. In 2016 and 2017, ESG disclosure was the most common issue brought to vote in the United States, and proposals often received historically high levels of support from shareholders, according to the Conference Board.

But not all companies wait for shareholders to nudge them to act on disclosure and reporting. Fortive, a leading industrial company (and a holding in our portfolio as of 9/30/18), recently sought to initiate annual sustainability reporting. Its management team wanted to ensure that Fortive's ongoing reports truly delivered information that investors would find valuable and useful, and reached out to Brown Advisory for input.

The ensuing collaborative engagement proved successful, made possible in large part by our long-standing relationship with the company. Fortive's first sustainability report was published this year, and we are happy to see that it clearly reflects the dialogue between Brown Advisory and Fortive's management team. The report also deepened our understanding of how Fortive's sustainability strategies are driving both societal impact and bottom-line results. Finally, the report indeed helped the company identify areas for further progress, as we learned in a follow-up engagement with Fortive's team in November.

Source: Akamai, Fortive and Brown Advisory. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients.

SPOTLIGHT ON PROXY VOTING

Proxy voting is the process by which shareholders vote on proposals submitted for consideration at a company's annual general meeting. Most proposals are submitted by management, and votes on **management proposals** are binding—the equivalent of a binding referendum vote on a ballot question in a statewide election. Additionally, a growing number of **shareholder proposals** are submitted each year for consideration at annual general meetings. These votes are nonbinding, but the vote totals on these proposals can often influence corporate behavior nonetheless.

We believe that companies can benefit by considering forward-thinking social and environmental proposals. We generally support ESG-related shareholder proposals that we consider likely to improve shareholder value over time. We actively consider each proposal's specific merits and the specific circumstances of the company, and we may undertake some combination of collaborative engagement with a company on material issues as well as casting our vote in what we consider to be our clients' best interests. Over time, we believe we have supported thoughtful policy proposals that have helped drive progress toward compelling financial results and a thriving economy and society.

Proxy Voting Summary, 9/30/17–9/30/18: Votes For/Against Proposal

SHAREHOLDER PROPOSAL ISSUE EXAMPLE: BOARD DIVERSITY

Example of voting "for" a proposal:
Company: Amazon

Proposal: Adopt diversity policy with regard to selection of candidates for the board of directors. Specifically, calls for assurances that third-party consultants will include diverse slates when submitting initial candidate lists for consideration.

Our View: We support reasonable proposals that improve corporate diversity. Amazon has long claimed diversity as a cornerstone of its success. While one-third of its independent directors are currently women, its board does not include any racial or ethnic minorities. After this resolution was filed (and before the vote took place), Amazon implemented a new diversity policy regarding board diversity that addressed the concerns expressed in the resolution and formalized practices the company stated were already in place.

Voting "against" the proposal (and "with" management) may have been reasonable in light of the fact that the company was already taking action. However, we voted "for" the proposal to reflect our support of Amazon's ongoing policy steps. We also wanted to signal our desire for more transparency on diversity—especially during a year in which Amazon and other large technology companies grappled with various reputational risks.

Example of voting "against" a proposal:
Company: Alphabet (parent company of Google)

Proposal: Adopt diversity policy with regard to selection of candidates for the board of directors. Specifically, calls for presentation of all board candidate's experience, gender, race and ideology in a chart or matrix format.

Our View: We support reasonable proposals that improve corporate diversity, and Google faced public challenges to its progress on diversity in 2018. These challenges extended to its annual general meeting, where shareholders considered two diversity-related shareholder proposals.

We conduct careful research on proposals to understand both their terms as well as the filers' objectives. The proposal mentioned above, in our view, focused primarily on increasing diverse ideologies. The other proposal on the ballot sought to address gender equity by asking the company to produce a gender pay equity report. We believe that the company has a healthy range of diversity in thought and ideology, but want to see the company increase its transparency with regard to gender equity. Thus, we voted against this ideology-driven proposal and for the gender pay equity report proposal. This is an example of why we believe it is so important to drill down on the specific ask before voting on any proposal.

Source: Amazon, Alphabet and Brown Advisory. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients.

Industry Contribution

Sustainable investing and impact investing have advanced tremendously in the past 10–20 years, thanks to thoughtful, ongoing contributions from many investors and investment firms. Through our commitments to collaboration and organizational involvement, writing articles and publications, and public events and speaking engagements, we hope to do our part. Please visit our website (www.brownadvisory.com/en/sustainable-investing) for more information.

Collaboration/Organizational Involvement:

PRI Principles for Responsible Investment	Signatory since 2014.
The Green Bond Principles	Early signatory and active contributor to strategies to increase GBP adoption.
Ceres — Sustainability is the bottom line.	Long-term member and supporter. Brown Advisory partner Steven Hoch sits on Ceres' President's Council.
CDP — DRIVING SUSTAINABLE ECONOMIES	Long-term signatory and supporter.
US SIF	Long-term member and supporter.
SRI Conference & Community — a FolioFinancial company	Long-term conference participant. Karina Funk serves on conference agenda committee.
Intentional Endowments Network — An initiative of CreateSustainability.org	Founding member. Brown Advisory partner Erika Pagel serves on Steering Committee.
BASIC — Boston Area Sustainable Investment Consortium	Long-term member, supporter and event co-host/sponsor.
WOMEN INVESTING IN A SUSTAINABLE ECONOMY	Katherine Kroll co-leads WISE's Boston chapter. Our colleagues are members of the NYC and DC chapters as well.

Our Recent Articles and Publications:

"ESG and the Stock-Picker's Dilemma"
by Karina Funk and David Powell
(published in the 2017 Journal of Environmental Investing)

"Capital Conservation"
by Karina Funk and David Powell

"Seeing the Big Picture: Investing For Impact in Public Markets"
by Emily Dwyer and Karina Funk

"Income and Impact: Adding Green Bonds to Investment Portfolios"
by Amy Hauter and Tom Graff

"The Other 95%: Impact Investing for Endowments and Foundations"
by Brigid Peterson

"Conversation with the Portfolio Managers: Sustainable Core Fixed Income"
by Tom Graff and Amy Hauter

Our Recent Speaking Engagements:

PRI Climate Forum
"Investing in the Low Carbon Economy"
Karina Funk

CFA Sustainable Investing Conference (New York)
"ESG Integration"
David Powell

MIT Sloan Sustainability Series
"Impact Investing"
Emily Dwyer

South by Southwest (Austin, Texas)
"Investing to Change the World"
Dune Thorne, Karina Funk

The SRI Conference (Colorado Springs, Colorado)
"From 20th-Century Regulation to 21st-Century Sustainability"
Dan C. Esty (w/Mary Gregory moderating)

Council on Foundations Endowments & Finance Summit (Washington, DC)
"From Idea to Impact"
Brigid Peterson

Factset Symposium (Orlando, Florida)
"The Sustainable Fixed Income Landscape"
Amy Hauter