Global Focus Strategy

2021 INVESTMENT REVIEW | January 2022

Brown ADVISORY
Thoughtful Investing.

Dear fellow investors, colleagues and friends,

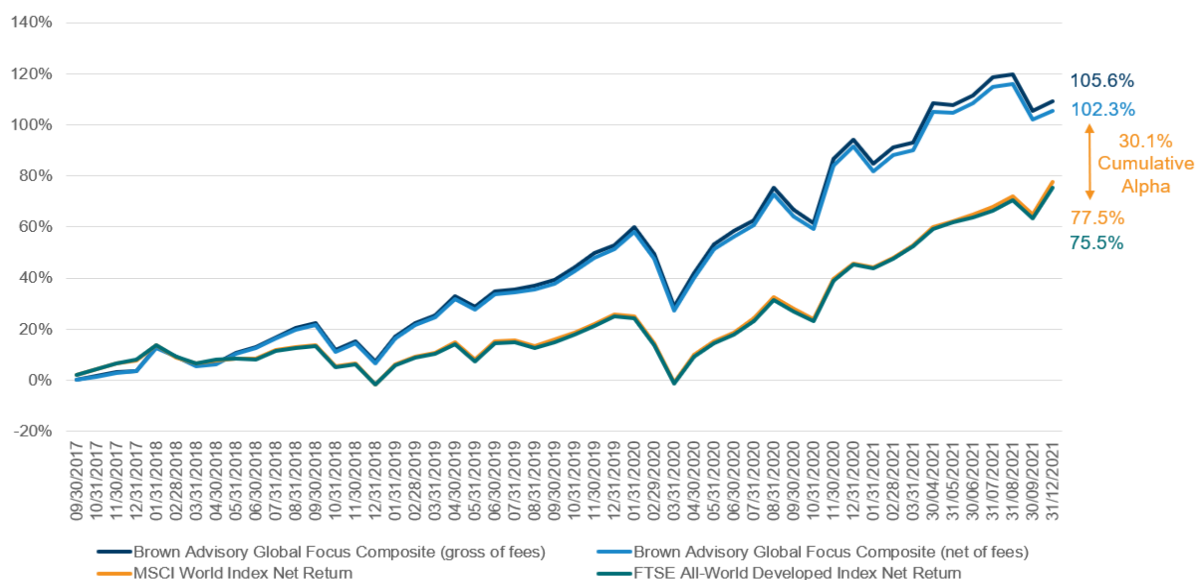
I hope you are well and trust that you are having an enjoyable start to 2022. In many ways 2021 was another extraordinary year – unbridled euphoria continued in certain areas of the equity markets against a backdrop of rising inflation and inevitable monetary policy tightening. Late in the period the emergence of the Omicron variant of COVID-19 increased uncertainty about the pathways for the world to emerge from the pandemic. Despite these events it is important to remember that a year is a discrete period of time – it's 10% of our preferred decade long-investment horizon and an even smaller percentage of the lifespan of most companies. Despite this reality we wanted to provide you with an update on the Global Focus strategy in 2021 which we hope you enjoy as we head into the new year.

Performance:

The Global Focus strategy hit its 4-year anniversary at the end of August 2021. Since inception on 1st September 2017 through the end of December 2021, the strategy has generated 102.3% cumulative net of fees returns, as you see in the chart below.

Cumulative Performance as of December 31, 2021

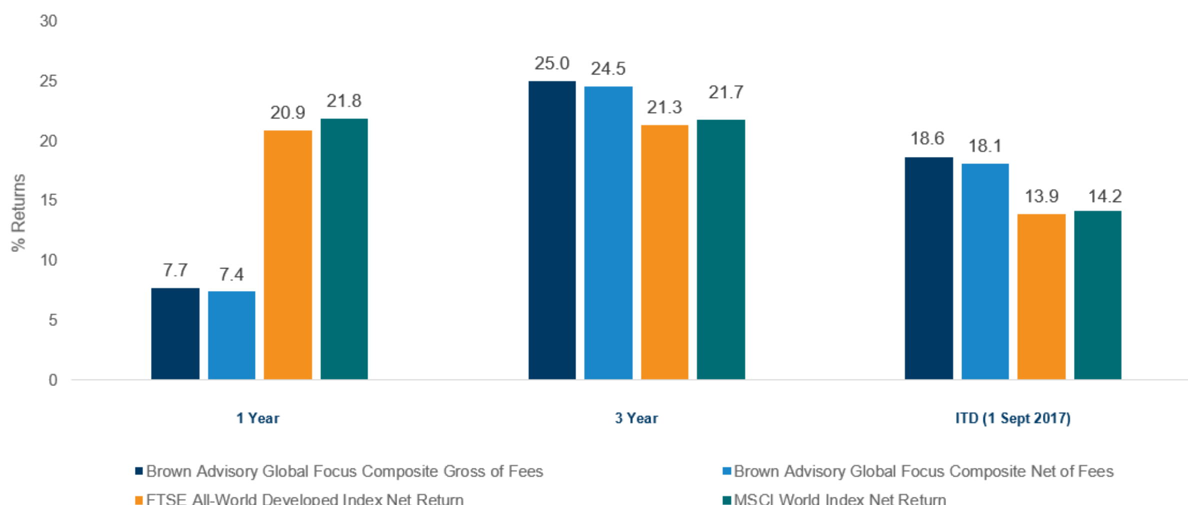
Global Focus Composite vs FTSE All-World Developed Index and MSCI World Index (monthly)
Since inception (09/01/2017 to 12/31/2021)



Source: Factset. Past performance is not indicative of future results. The composite performance shown above reflects the Global Focus Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Global Focus composite disclosure for more information.

Annualized Performance as of December 31, 2021

Global Focus Composite vs FTSE All-World Developed Index and MSCI World Index
Since inception (09/01/2017 to 12/31/2021)



Source: Factset. Past performance is not indicative of future results. Returns greater than one year are annualized. The composite performance shown above reflects the Global Focus Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Global Focus composite disclosure for more information.

Against this backdrop we thought it was worth mentioning a couple of important points:

1. We encourage all current and potential partners to appraise our performance in the same way that we appraise our companies – over the long-term. Our investment approach is based on arbitraging the short-term focus of the equity markets against the long-term realities of dominant business models and their ability to compound free cash flow. Lumpy annualised returns are part and parcel of running a highly concentrated (10-15 company) investment strategy and as we have mentioned to partners in previous correspondences, the pathway to attractive long-term returns is not linear. With this in mind, after a strong three years, Global Focus generated a 7.4% absolute and -13.5% relative return net of fees during 2021.

2. 2021 performance within the strategy reflected what we perceive as an ongoing fixation by investors on short-term issues that we believe will ultimately prove transient in the fullness of time. This preoccupation resulted in a bifurcation in equity markets with our investments in technology companies (Alphabet, Microsoft and Wolters Kluwer) being the main areas of outperformance in 2021. These positive contributions were offset by underperformance from companies that were in some way directly or indirectly impacted by the ongoing effects of the COVID pandemic – most obviously our aerospace investments Safran and Woodward and less obviously Visa, Autodesk and Charter Communications. The other main detractor from performance was our now disposed investment in Fair Isaac Corporation which was entirely company specific and we touch on it later.

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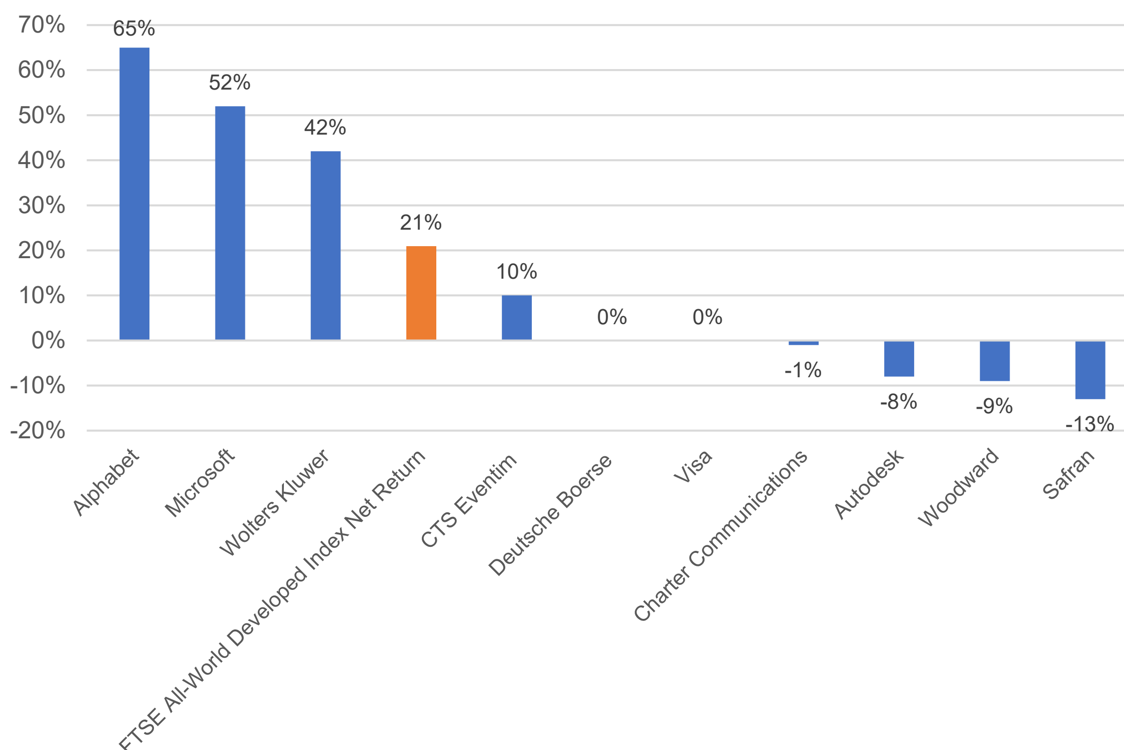
Global Focus Holdings 2021 Returns

Global Focus Representative Account as of 12/31/2020 to 12/31/2021



Source: Factset. Past performance is not indicative of future results. The portfolio information shown above is based on a Global Focus representative account and is provided as supplemental information. The illustration above does not show cash and cash equivalents. Only holdings held in the portfolio as of 12/31/2021 are shown above. Please see the end of the letter for important disclosures and a GIPS compliant presentation.

Drawdown Reviews

In an effort to fight the damaging impact of loss-aversion on our partners' capital we have a drawdown review rule which is triggered when a company's share price falls 20% below our purchase price or underperforms by -20% over a twelve-month basis. During 2021 we had two significant drawdown events – Deutsche Boerse in February and Visa in September. Below you can see the performance of the companies that we have added to following drawdown reviews since inception of the strategy. Typically, we view these negative price actions as opportunity and in each instance where we have added we felt that the perceived issues were entirely transient and more than discounted by equity markets.

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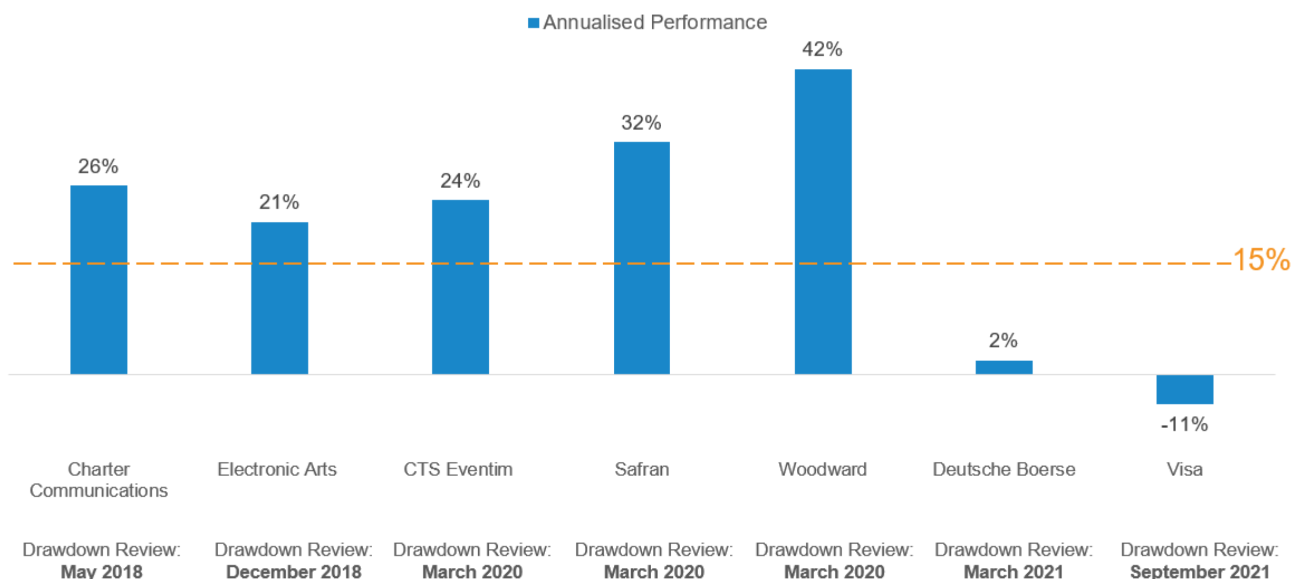
Drawdown Reviews Since Inception

Annualised performance since adding to each investment following a drawdown review, to December 31, 2021*



Source: Brown Advisory Calculations. Past performance is not indicative of future results and you may not get back the amount invested. The portfolio information shown above is based on a Global Focus representative account and is provided as supplemental information. Please see the end of the letter for important disclosures and a GIPS compliant presentation.

*The performance shown for Electronic Arts is for the period December 2018 to September 2021, when the investment was sold within the Global Focus representative account.

Positioning

Following the sales of Electronic Arts or 'EA' (September) and Fair Isaac Corporation (November) the Global Focus strategy currently has ten investments (see below). We sold EA in September primarily on opportunity cost grounds as we saw better long-term internal rate of returns (IRRs) in Safran and Autodesk. We wrote about the sale of EA in the strategy's four-year anniversary letter (link). Following extensive primary research, we sold Fair Isaac Corporation in November after having owned the company for only eight months – an unusually short period of time for us. The sale is the third disposal in the strategy's existence, a testament to our low turnover, but we felt that the shifting regulatory sands arounds the group's Scores business was a potential thesis buster. As a reminder FICO's Scores business contributes >80% of the group's cash flow and the FICO Score is the de facto benchmark on which the majority of consumer lending decisions are based in the U.S. Primary research doesn't stop when we make a new investment and over the summer we spoke to various parties about the upcoming review by the Federal Housing Finance Association (FHFA) to keep abreast of whether FICO will retain its status as the only recognised benchmark for U.S. mortgages which are underwritten by Fannie Mae and Freddie Mac. Following this work, we felt that there was a more than two-thirds chance that FICO's rival score, the Vantage Score, was going to be granted approval as an alternative score by the FHFA. Given how entrenched the FICO Score is in the U.S. credit system we still expect it to remain the dominant credit score in the U.S. but crucially we think if Vantage Score is approved by the FHFA it will severely handicap FICO's pricing power and long-term free cash flow growth. As a reminder pricing power is one of the key ingredients that we look for in any Global Focus company and the ability to capture some of the consumer surplus, that existed due to historical reasons, through price-led growth was the cornerstone of our FICO investment thesis. Despite having sold both EA and FICO in 2021 we remain excited about the latent return

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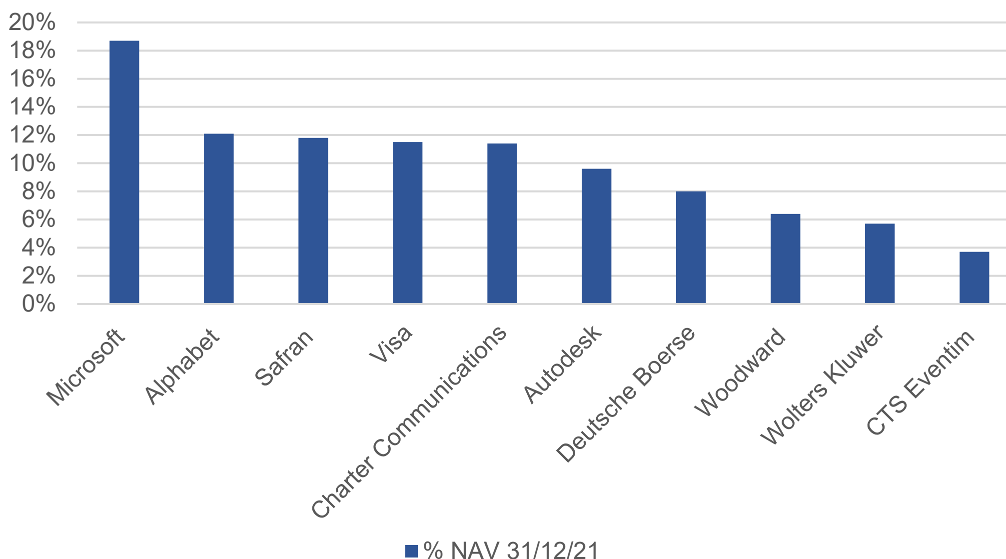
potential within the strategy and the raft of companies on our subs-bench – our ready-to-buy list. From German fintech companies, to Danish medical devices businesses, U.S. healthcare IT providers and Japanese leisure assets we have a smorgasbord of dominant business models waiting in the wings which we can bring into the strategy if volatility persists and the IRR stars align in 2022 and beyond.

Global Focus Positioning as of December 31, 2021

Portfolio Holdings



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Global Focus Companies

As a reminder we are concentrated (10-15 companies) long-term investors and we look to invest our partners' capital in companies with the following attributes:

1. **Dominant business models** – evidence of clear competitive advantages, protected by a fortress of economic moats and significant value capture optionality through either latent or like-for-like pricing power.

2. **Improving returns on capital** – ROIIC > ROIC, more valuable future cash flow streams and investor managers that can add value through capital allocation.

3. **Cash flow-based payoff** – >15% 5-year base case IRR at our initial investment, narrow probability ranges and a tight distribution of outcomes.

Accordingly, we wanted to update you on the progress of the handful of companies in which we invest that we feel possess these attributes:

- **Microsoft (18.7% NAV)**: Despite continued outperformance in 2021 Microsoft continues to be the largest position in the Global Focus strategy thanks to the company's two monopoly assets (Office and Windows), an oligopoly position in cloud (Azure) and growing adjacent businesses. Our software analyst, John Canning, characterises Microsoft as 'the staple for the enterprise' with the

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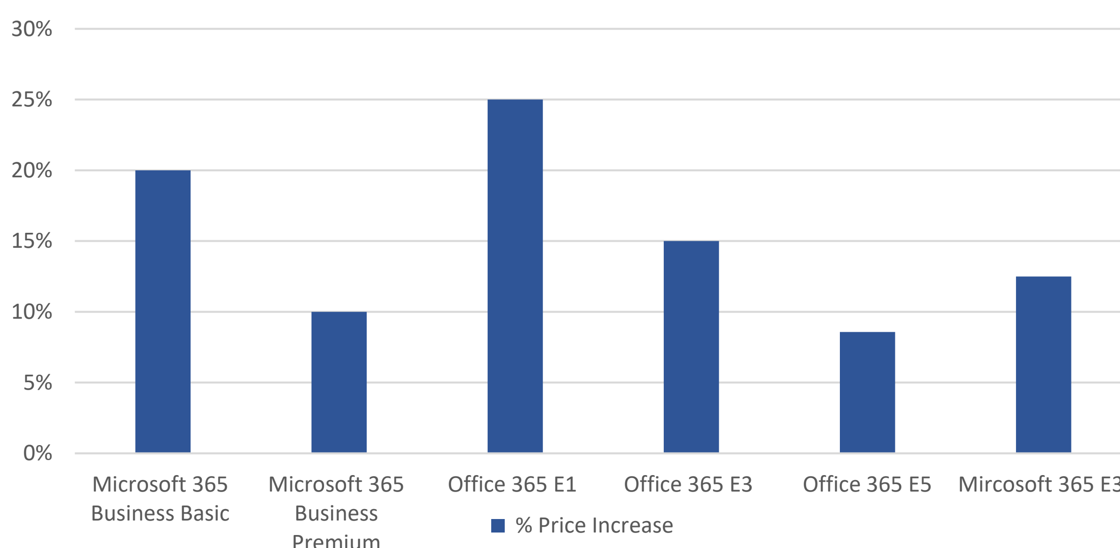
company delivering indispensable products to its customers that provide growing value. Microsoft Office's transition to cloud is near complete with >300m paid Office 365 seats and Teams is fast becoming the backbone of enterprise communication with >145m daily active users. We look for companies with pricing power in the Global Focus strategy but crucially only when the business delivers a considerable consumer surplus – in essence when the customer's willingness to pay is materially higher than the price of the product. A growing consumer surplus reduces switching and enables pricing power which can be used to offset inflationary forces and aid compounding. In August Microsoft announced that, for the first time since launching a decade ago, it would be increasing the list prices for its Commercial Office 365 products by an average 15% from March 2022 (see below) due to the increasing value that has been delivered to its customers through communication (Teams), security, AI and automation. This news is symbolic of a customer-focused business monetising its growing consumer surplus and we expect minimal churn from Office Commercial customers as a result. Microsoft is growing its cash flow at 30% (Q122) with significant optionality in its core cloud-based assets underpinning the mid-teens 5-year IRR we see for our clients.

Microsoft Commercial Office 365 2022 Price Increases

As of 12/31/2021



Source: Company reports.

- **Alphabet (12.1% NAV):** In a recent working paper[1] a sample of U.S. consumers were asked what the minimum amount of money they would accept to forgo using certain internet products for a year was. The median annual willing to accept (or WTA) response for search, email and maps was $17.5k, $8.4K and $3.6k respectively – quite some consumer surplus in a country where median real earnings are $41k[2]. These are categories where Google parent Alphabet dominates – especially in search and maps where it enjoys monopoly-esque positions. Of course, users of Google Search and Google Maps are one side of each network with the real customers being the advertisers who are looking to use Alphabet's assets to attract consumers that perceive a

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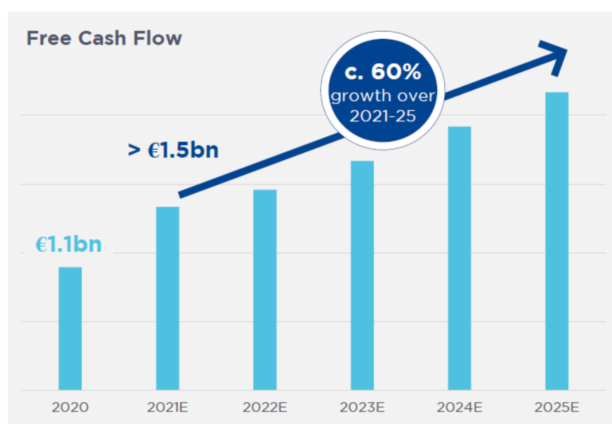
[1] Source: Using Massive Online Choice Experiments to Measure Changes in Well-Being by Brynjolfsson, Eggers and Gannamaneni.
[2] Source: U.S. Census Bureau.

significant consumer surplus from using the company's products. Alphabet results in 2021 were testament to the power of its networks and the willingness of corporations to advertise in their platforms with advertising revenue growing by 43% in the most recent quarter with the main economic engine Google Search growing 44% and the margin for Google Services (of which Search is the lion's share of the economics) rising to 40% from 34% a year earlier.[3] Part of this growth has been driven by online spending patterns which have been accelerated due to the pandemic but we still see significant optionality for Google Search in areas like local advertising and elsewhere in assets like YouTube and Google Cloud. We expect revenue growth to slow long-term as Search matures and despite recent outperformance we still see a teens IRR for Alphabet investors over the next 5 years.

- **Safran (11.8%) and Woodward (6.4% NAV)**: Investor's hate uncertainty of any kind – regardless of however fleeting it is. In 2021 the share prices of our aerospace investments Safran and Woodward underperformed as investors digested the impacts of COVID-19 on passenger volumes. We are attracted to both business as they have either monopoly or duopoly positions on long-life products and razor-razor blade business models that foster pricing power. Despite share price weakness, Safran and Woodward actually outperformed our expectations for free cash flow in 2021. It's also worth remembering that both companies' civil aerospace businesses are over indexed (>80%) to narrowbody aircraft, Airbus's A320 and Boeing's 737, where >60% of passenger volumes are derived from domestic air traffic with the remainder largely coming from intra-continental travels. Longer term Safran expects narrowbody aircraft capacity to grow 4.2% 2023-2040 – a view shared by Airbus and Boeing. Even with the emergence of the Omicron variant of COVID-19 towards the end of 2021 early indications are that narrowbody passenger volumes have held up well and there is diminishing global appetite for travel bans. In December we attended Safran's Investor Day in Paris, the first event since 2018, where the company unveiled its expectations for the 2021-2025 period. We feel that the company's outlook is suitably realistic being based on an assumption that global narrowbody air travel, the main driver of civil aftermarket cash flows, will return to 2019 levels by the end of 2022 and conservative new build rates for the Airbus A320neo and Boeing 737 MAX. This translates into Safran expecting an organic compound annual growth in revenue of 10% 2021-2025, 16-18% operating margin (vs >11.2% expected for 2021) in 2025 and >60% growth in free cash flow by 2021-25 (see below).[4]

Safran's 2021-25 Free Cash Flow Expectations



Source: Company reports.

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[3] Source: Company reports.
[4] Source: Company reports.

Finally, Safran is aggressively investing in solutions to decarbonise air travel with 75% of self-funded research and technology (R&T) spending in 2021-25 being allocated towards sustainable aviation, with the RISE engine as the centrepiece, and environmental criteria are now embedded into senior management's compensation packages. Elsewhere during 2021, our other aerospace component manufacturer Woodward produced a decent free cash flow performance in 2021 with $427m representing 36% year-on-year growth. The company gave its first financial guidance since the start of the pandemic at their 2021-year end results with the Colorado based business expecting a recovery in 2022 with low to mid-teens revenue growth for its key aerospace and industrial segments. Woodward produces flight control systems with a strong focus on mission-critical engine components such as actuators and fuel systems. The investment thesis is centred on our expectations of a significant free cash flow harvest period in the years after 2025 as the company has been successful in winning 120%-188% more content on the latest narrowbody aircraft.[5] From 2025 onwards, we expect these aircraft to come in for their first shop visits and for Woodward to benefit from aftermarket cash flows and continued self-help due to their True North operational efficiency program. Woodward exemplifies the time-based arbitrage that we aim to exploit for our partners as we look out beyond both the pandemic and into 2025 and beyond – a period of time where there are no consensus estimates of Woodward's free cash flow provided by the investment banks. It's easy to forget that >85% of a growing company's net present value[6] lies outside of years 1 and 2 in the future. In July 2021 we presented Woodward at the MOI Global Wide Moat Investing Summit – the thesis is largely unchanged and can be accessed here. We expect both of our aerospace investments to deliver low-to-mid teens 5-year IRRs as travel returns and the industry continues its recovery from the pandemic.

- **Visa (11.5% NAV)**: Visa operates in a parallel monopoly with Mastercard. The core of Visa's business model leverages their extensive payment network of >80m merchant locations and >15k financial institution partners that provide 3.7bn Visa cards to their customers. In many ways Visa has benefitted from the pandemic with the use of cash declining – cards now account for 55% of consumer spending outside of China. This acceleration of a long-term structural driver combined with rising e-commerce penetration enabling Visa to post 16% payment volume growth in 2021 and higher payment volume growth before the pandemic on a two-year basis. 2021 revenue and operating profits rose by 10% and 12% accordingly. Despite these tailwinds Visa shares underperformed during 2021 for a couple of principal reasons:

    1. Lucrative cross-border payment volumes accounted for approximately 30% of Visa's revenue in 2019 and travel related volumes (ex-Intra Europe) still remained 25% below 2019 levels in November 2021, despite robust cross-border e-commerce volumes.[7] The company cautiously updated investors on their 2021 results call that they don't expect cross-border travel volumes to return to 2019 levels until 2023 which resulted in share price weakness.

    2. Elsewhere the growth of Buy Now Pay Later (BNPL) providers prompted investor concerns that one of these new companies could circumvent the payment networks and create a 'closed loop' between the merchant and the consumer. After considerable work we think that BNPL is more of an opportunity than a threat – especially as the majority of repayments are typically paid with debit cards which run over Visa and Mastercard rails. In addition, we feel that the increasingly competitive nature of the BNPL landscape will force the various providers to

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[5] Source: Company reports.
[6] Based on our default 10-year discounted cash flow model with a 10% WACC and 3% terminal growth rate.
[7] Source: Company reports.

embrace the payment networks as they look to benefit from ubiquity and services like counter-party and fraud protection for their users. Where else could a BNPL provider gain acceptance to >80m merchants at the flick of a switch? Indeed, we are already seeing collaboration from BNPL players like Klarna who have a close relationship with Visa. Finally, the perceived BNPL risk needs to be seen in context. Visa estimate that the total BNPL industry generated $150bn payment volume in 2021 which is 1% of the $14.6trn 2021 net payment volumes of Visa and Mastercard.[8]

3. The last piece of negative news flow that Visa investors had to deal with was the company's ongoing negotiations with Amazon that culminated in the e-commerce giant announcing in November 2021 that they were going to ban the use of Visa credit cards in the U.K. Like BNPL it's important to not lose the forest from the trees – Amazon accounts for c.3% of Visa's global payment volume and Visa's U.K. payment volumes are 90% debit and only 10% credit – accordingly the combined impact on Visa volume and revenue is <1%. We feel that Amazon's brinkmanship is targeted at the financial institutions that provide credit cards with Visa being used at the go-between in the negotiation. It's important to remember that the majority of the merchant discount rate charged on any transaction goes to the consumer's credit card provider which is where we feel the focus of this dispute is placed. Ultimately this very public negotiation reminds us of similar disputes with large merchants like Walmart in the past which were settled. We expect a similar outcome in the Amazon dispute.

In September 2021 we conducted a drawdown review on Visa and added to our investment as we felt that travel volumes will return over the long-term and that the company's moats, built around the VisaNet network, remain in place with significant long-term optionality in new payment flows with products like Visa Direct. Finally, Visa's tollbooth business model and largely fixed cost base should see the company benefit from higher inflation. We see a mid-teens base case 5-year IRR for investors.

- **Charter Communications (11.4% NAV):** We remain attracted to connectivity provider Charter Communications which continues to enjoy local monopolies in 65% of its cable footprint thanks to superior broadband infrastructure that is expensive to replicate. In addition, their focus on service and value over price is reflected in Charter's Spectrum internet pricing packages being cheaper than peers. To us the company's asset base and go-to-market strategy sets it up well to benefit from continued long-term growth in data. We expect U.S. data consumption, as measured by gigabit per household, to continue growing >20% annually. This comes on top of Charter internet-only subscribers consuming >600 gigabits a month and the average subscriber household having an astonishing average of 14 connected devices[9] – which is expected to grow by three devices by 2025 as users spend an average of 8 hours a day online[10]. Charter shares underperformed on the back of slowing subscriber growth in the second half of the year – Q3 residential subscribers grew by 243k which is below the >400k growth at the height of the pandemic and >300k average in 2019. We view these quarterly gyrations as being a function of a pull forward of demand during the pandemic and low U.S. household formation. One positive feature of the Charter model is that a temporary slowdown in subscriber growth is actually positive for financial performance as it results in lower levels of promotional activity which drives higher average revenue per user (ARPU) and lower marketing and servicing costs. Accordingly, the company posted 14% adjusted EBITDA

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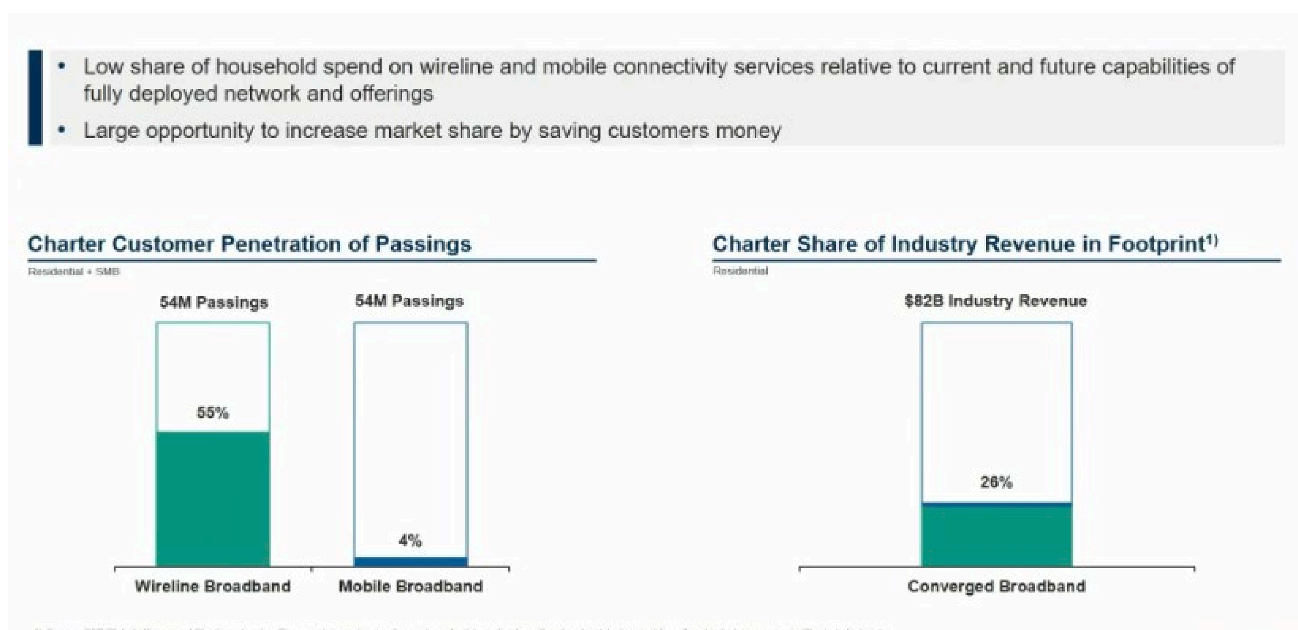
[8] Source: Company reports.
[9] Source: Company reports.
[10] Source: Frontier Communications.

and 41% free cash flow growth in the third quarter of 2021 – a robust financial performance that was overlooked by most investors. To us, investor concerns about overbuilding feel premature due to the poor economics of laying fibre. Our belief is that the densest geographies in Charter's footprint, where the potential cost per connected home is lowest, have already been overbuilt. Charter's penetration of its passings with wireline broadband is 55% which gives them ample room for growth in our view. In addition, we feel that the company has significant optionality in its nascent mobile business with their aggressive new $29.99 per month unlimited plan, for homes with 2 or more mobile lines, offering a 40% saving on the monthly bill for the average household in their footprint. Long-term we expect this significant saving, and growing consumer surplus! to accelerate convergence and for Charter and its partner Comcast to be credible threats to the existing telecom providers. Charter currently has 3 million residential mobile lines which is 11% of their residential internet subscriber base and the total mobile subscribers are only 4% of the company's 54 million passings (see below). We feel that the convergence opportunity at Charter is significant and overlooked by most U.S. investors who are overly focused on short-term subscriber trends – a view that was reinforced at a recent meeting we had with CFO Jessica Fischer. Following share price weakness in November we added to our position and see a 13% unlevered 5-year IRR with mobile success adding another 2-3%. The company continues to shrink its capital base at a rapid pace, we estimate Charter management will have retired >4% of shares outstanding in the fourth quarter of 2021 alone, which is turbocharging free cash flow per share growth (see below). We expect the company to deliver approximately $90 in levered free cash flow per share in 2026 which would equate to a levered equity IRR of 16%.

The Converged Connectivity Revenue Opportunity



Source: Company report dated 18th November 2021.

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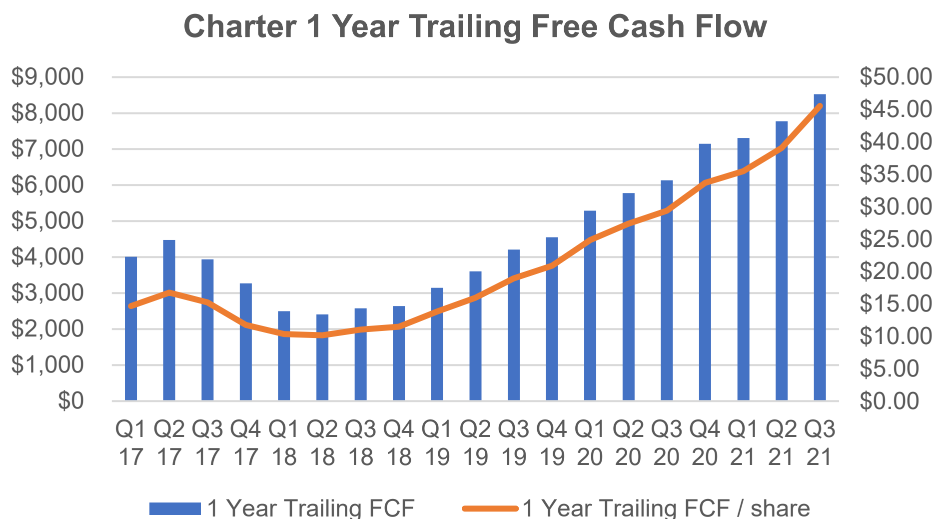
Charter 1 Year Trailing Free Cash Flow

As of Q1 2017 to Q3 2021



Source: Company reports.

- **Autodesk (9.6% NAV):** Autodesk enjoys a dominant position in the architecture engineering and construction (AEC) software space thanks to products such as Autocad and Revit which are sticky with high switching costs. The company has been expanding further into construction, an industry that is one of the least digitalised globally, and manufacturing. We met with Autodesk management and multiple users several times during 2021 and we view the company as providing significant value to its customers – as evidenced by their new consumption-based Flex business model for new and occasional users and manufacturing product Fusion 360 which provides advanced functionality at a fraction of the cost of competing systems. The company made further progress on a business model transition that started in 2016 after announcing a phasing out of multi-year contracts from fiscal 2024 onwards. Historically Autodesk provided 3-year contracts to AEC customers who paid upfront who in turn received a 10% price discount. This business model created lumpier free cash flow for Autodesk and increased commitment and uncertainty for the customer. By phasing out these multi-year contracts, Autodesk is responding to demand and effectively raising prices by reducing the discount – a win for both the company and the customer. The obvious net impact is less upfront free cash flow 2024-26 despite the move being accretive to the company's net present value. As mentioned above, >85% of a growing company's net present value lies outside of the first two years in the future[11]. Autodesk shares underperformed when this change was announced at the company's investor day in September due to what we felt was a myopic reaction by investors to a value creative contract change. This reaction was compounded in November at the company's third quarter results when they revised down their expectations for full year cash flow by 7% due to a combination of adverse currency headwinds and supply chain disruptions at their customers – some of which are being impacted by their customers facing rising

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[11] Based on our default 10-year discounted cash flow model with a 10% WACC and 3% terminal growth rate.

freight and commodity costs. We feel that these issues and the aforementioned contract changes are entirely transient as we believe that Autodesk has the ability to grow free cash flow at double digit rates as the AEC industry digitalises. Part of this confidence is based on limited competitive threats and the company having a history of price increases. In addition, Autodesk has significant optionality in its non-compliant user base which we believe is one of the most attractive in software. The company had 5.2m subscribers in 2021 and they estimate that 15m non-compliant users[12] are regularly using their software without currently paying for it. In an interconnected world Autodesk are deliberately making it harder for these digital squatters to interact with other users without paying for the latest version of their software. We see this as a multi-year opportunity that should underpin long-term free cash flow growth for Autodesk. Following share price weakness in November we added to our investment in Autodesk as we felt that these short-term issues were priced in and we increased our partners' exposure to a dominant business model that should benefit from numerous tailwinds over the long term.

- **Deutsche Boerse (8% NAV)**: Financial infrastructure and data provider Deutsche Boerse's shares underperformed in 2021 due to a continuation of the trends that we wrote about in our April 2021 investment letter (link). Low interest rates and volatility resulted in significant cyclical headwinds to the business in 2021. Deutsche's derivatives exchange Eurex saw some of the lowest volumes in the recent past for its most profitable equity index futures contracts (14% 2020 revenue). In addition, 2021 net interest income at Deutsche Boerse's Clearstream custody asset was impacted by declining interest rates. We estimate that Eurex equity index futures and Clearstream net interest income will have created a 7% combined revenue headwind in 2021 for Deutsche Boerse – revenue that is incredibly high margin and has an outsized impact on cashflow. A tightening interest rate cycle should bring higher net interest income and increased demand for the risk management products that Eurex provides as the cost of capital increases. We expect these cyclical headwinds to dissipate over time – incorporating the Federal Reserve's expectations of interest rate rises, as reflected in their latest dot plots, would equate to a 4% tailwind to cash flow by 2023 from Clearstream net interest income alone. In addition to a cyclical mean reversion, we remain positive on Deutsche Boerse's ability to deliver >5% secular growth long-term. Towards the end of the year we attended segmental deep dives on the company's ISS and Investment Fund Services assets which combined with the group's Qontigo data and analytics business we expect to account for 25% of 2022 revenue. These assets are exposed to long-term structural growth drivers and we expect them to be able to grow at double digits for the foreseeable future. We feel that the long-term potential and quality of Deutsche Boerse's assets are overlooked by investors who have been preoccupied with cyclical headwinds in 2021 which we expect to dissipate over time. We conducted a drawdown review of our investment in February 2021 and added to our positions and we still see and 13% 5-year base case IRR.

- **Wolters Kluwer (5.7% NAV)**: We expect 2021 to be another year of decent progress for Wolters Kluwer with the company reporting 6% organic growth in the first nine months of the year and robust margin improvement at the half year stage[13]. The company's metamorphosis from a traditional publisher to a workflow solutions provider continues. Under the stewardship of long time CEO Nancy McKinstry, Wolters Kluwer has pivoted from producing print-based reference materials in the medical, tax, legal and governance sectors towards software products such as UpToDate which is now used by two million clinicians to make more accurate diagnoses. 55% of

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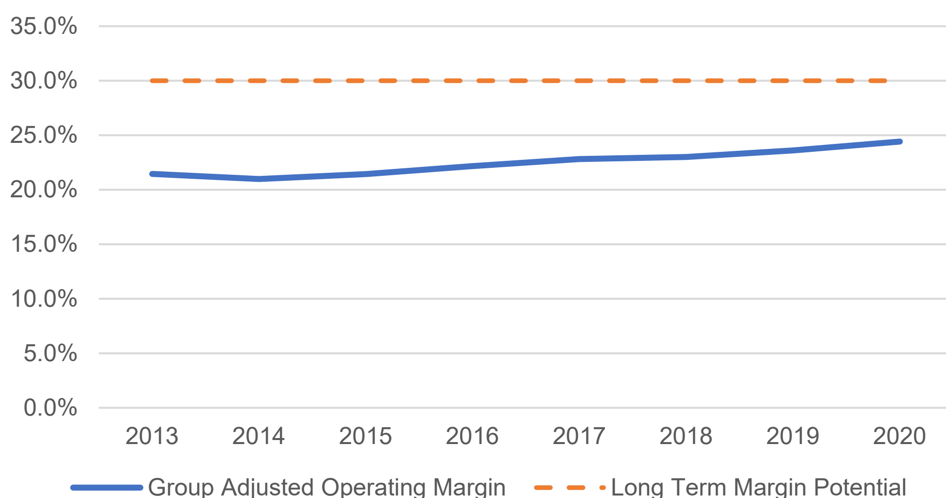
[12] Source: Company reports. Regular is defines as the user having >4 sessions over the trailing 90 days.
[13] Wolters Kluwer only reports revenue on a quarterly basis.

revenue in the first half of 2021 now comes from Expert Solutions[14] – products that are embedded into customer workflows and drive beneficial outcomes for the doctors, tax accountants and compliance professionals that use them. We understand that Expert Solutions products provide faster growth, greater pricing opportunities and higher margins at scale. Management has aspirations of growing Expert Solutions to >65% revenue over the next 5 years which we estimate could add 1-2% to annualised growth for Wolters Kluwer and enable the company to generate >30% operating margins vs 24.4% in 2020 (see below). This vision was underlined late in the year when we attended a Health and Technology teach-in with the company in December. We gained greater insight into Wolters Kluwer's Digital eXperience Group (DXG) which is a two thousand person cross-segment resource focused on driving innovation for customers. DXG is tasked with accelerating product development and technological change within the company – both of which should help the company achieve its Expert Solutions goals, and accompanying growth and margin tailwinds, over the medium term.

Wolters Kluwer Adjusted Operating Margin

As of December 31, 2020



Source: Company Reports.

- **CTS Eventim (3.7% NAV)**: Live entertainment specialist CTS Eventim appears to be emerging from the pandemic with the company reporting a 16% increase in online ticket sales in the third quarter of 2021. We believe this momentum continued into the end of 2021 thanks to a strong line-up including acts like Ed Sheeran and Helene Fischer. Despite the emergence of the Omicron variant of COVID-19 late in the year our understanding is that lead times for bookings have extended from 6-8 months to 12-18 months with the company selling tickets for 2023 concerts.

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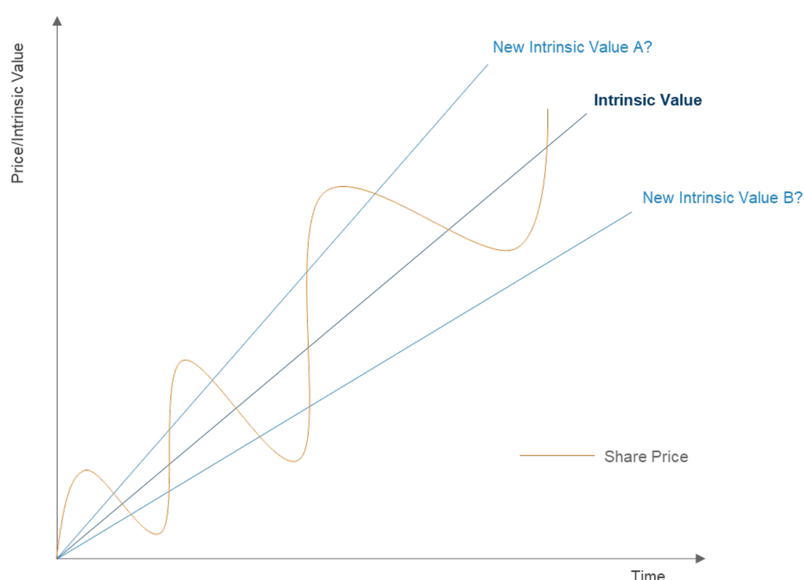
[14] Source: Company reports.

In addition, echoing a trend we have seen in U.S., we expect a higher level of ticket price inflation in 2022 as promoters and artists try and capture revenue lost in the pandemic – all of which is positive for Eventim ticketing with its tollbooth business model. A rebound in ticketing volumes and pricing coincided with the company repaying the E200m revolving credit facility they drew down in April 2020 at the height of the pandemic – a sign of confidence. Elsewhere we are becoming increasingly positive on CTS Eventim's ability to grow free cash flow through newer initiatives such as e-commerce, the Eventim.App and the recently announced U.S. expansion. In addition, the company is going to consolidate their acquisition of France's largest ticketing network, France Billet, in 2024 and we expect a gradual harmonisation of take rates closer to those in Germany to be another tailwind to medium term cash flow.

Volatility: What Is It Good For?

As we have written about before we fervently believe that equity markets are inefficient over short time periods and more efficient over longer time frames. Typically share prices are materially more volatile than the intrinsic value of the companies they represent. Indeed, our focus on dominant business models with improving returns is deliberately designed to dampen the intrinsic value volatility of the companies we look to invest in as we target companies where we see limited competitive threats with growing free cash flow streams. Looking for businesses in highly competitive industries without economic moats and clear competitive advantages makes investing even harder – we try to avoid picking the winner of the economic equivalent of a bar brawl. It's too hard. Despite seeking monopolies, duopolies and oligopolies we remain eternally paranoid about the competitive positions of our companies and we continually appraise our understanding of the long-term intrinsic value of our investments. This process is a Sisyphean task and I am eternally grateful to our talented analyst team for their hard work in helping us understand whether our understanding of intrinsic value needs to be revised upwards or downwards – to Intrinsic Value A or Intrinsic Value B in the below diagram. The reality is that in 2021 there have been a few positive revisions (such as Microsoft, Alphabet and Wolters Kluwer) but also few negative changes to our understanding of the long-term intrinsic value of our companies – even for our aerospace investments Safran and Woodward where our base line assumption has been for narrowbody passenger traffic to recover to 2019 levels by 2023 for some time. In the face of limited changes to our understanding of intrinsic value we have to remind ourselves and our partners of one of the core tenets of the Global Focus strategy: *'share price volatility is not risk but opportunity'* and remain comfortable that price and value will converge over time.



Source: Brown Advisory.

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Improving Economics Driving FCF-Based Upside

December 31, 2021

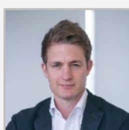
COMPANY	FY21 FCF/EV Yield	FY26 FCF/EV Yield	LT FCF Growth (2027-31)
MICROSOFT	3.7%	10.0%	11%
ALPHABET	3.4%	9.6%	10%
SAFRAN	2.6%	8.1%	8%
CHARTER COMMUNICATIONS	4.9%	11.3%	6%
VISA	3.3%	7.5%	10%
AUTODESK	2.9%	6.8%	10%
DEUTSCHE BOERSE	5.3%	8.6%	8%
WOODWARD	4.8%	11.0%	8%
WOLTERS KLUWER	3.6%	5.5%	7%
CTS EVENTIM	9.2%	8.2%	7%
GLOBAL FOCUS MEDIAN	3.7%	8.4%	8.2%
GLOBAL FOCUS WEIGHTED AVERAGE	3.9%	8.8%	8.8%
GLOBAL FOCUS WEIGHTED AVERAGE EV/FCF	25.6x	11.4x	8.8x

Source: Factset. Estimates are based on Brown Advisory calculations.

Looking out to 2026 and beyond we feel that there is significant latent value within the Global Focus strategy that we expect to be realised in the fullness of time. On our numbers, the strategy trades on a weighted average FCF/EV yield in 2021 of 3.9% (or 25.6x EV/FCF) that we expect to rise to 8.8% (or 11.4x EV/FCF) in 2026 on our estimates. This represents a compelling market implied 5-year 18% IRR if the current multiples that investors apply to our companies hold for 5 years. Longer term we conservatively expect our collection of monopolies, duopolies and oligopolies to deliver 8.8% FCF growth within a tight range of probabilities given our companies' competitive positions.[15] There are no guarantees in investing but we feel that the latent value within the strategy is one of the best we have seen since we started Global Focus on 1st September 2017. In addition, our inquisitive team of investors continue to uncover dominant business models that have the potential to be future Global Focus investments – many of which have made their way onto our subs-bench, the ready-to-buy list, and we are excited about the prospect of investing in a number of them in 2022 and beyond. Many thanks for your interest in the Global Focus strategy and reading about our companies' progress in 2021. We look forward to catching up with you this year – please get in touch (globalfocus@brownadvisory.com) if you have any questions on the strategy, our companies or anything else.

Best,

Bertie Thomson



Bertie Thomson, CFA
Portfolio Manager

Mick Dillon, CFA
Portfolio Manager

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[15] Brown Advisory estimates

Disclosures

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ROIC is a measure of determining a company's financial performance. It is calculated as NOPAT/IC; where NOPAT (net operating profit after tax) is (EBIT + Operating Leases Due 1-Yr)*(1-Cash Tax Rate) and IC (invested capital) is Total Debt + Total Equity + Total Unfunded Pension + (Operating Leases Due 1-Yr * 8) –Excess Cash. ROIC calculations presented use LFY (last fiscal year) and exclude financial services.

ROIIC is calculated by dividing a company's constant rate incremental operating income (plus depreciation and amortization) by the constant rate-weighted average-adjusted investment capital. The ratio is expressed as a percentage.

The internal rate of return (IRR) is a measure of an investment's rate of return. The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. It is also called the discounted cash flow rate of return.

FCF yield is a measure of financial performance calculated as operating cash flow minus capital expenditures. FCF yield calculations presented use LFY and exclude financial services.

Free cash flow represents the cash a company generates after cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital.

Enterprise Value to Free Cash Flow (FCF/EV) compares the total valuation of the company with its ability to generate cash flow. It is the inverse of the Free Cash Flow Yield.

Earnings before interest and taxes (EBIT) is an indicator of a company's profitability. EBIT can be calculated as revenue minus expenses excluding tax and interest. EBIT is also referred to as operating earnings, operating profit, and profit before interest and taxes.

EBITDA, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances.

Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

Alpha, used in finance as a measure of performance, is the excess return of an investment relative to the return of a benchmark index.

The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets. The WACC is commonly referred to as the firm's cost of capital. Importantly, it is dictated by the external market and not by management.

Total return is the amount of value an investor earns from a security over a specific period, typically one year, when all distributions are reinvested.

Global Focus Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets ($USD Millions)*	GIPS Firm Assets ($USD Millions)*
2020	27.0	26.6	16.1	19.6	18.3	Five or fewer	N/A	32	59,683
2019	42.7	42.1	27.3	N/A	N/A	Five or fewer	N/A	12	42.426
2018	3.4	2.9	-9.1	N/A	N/A	Five or fewer	N/A	4	30,529
YTD 2017**	3.7	3.5	8.1	N/A	N/A	Five or fewer	N/A	2	33,155

**Return is for period September 1, 2017 through December 31, 2017

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2020. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

1. *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.

2. The Global Focus Composite (the Composite) includes all discretionary portfolios invested in the Global Focus Strategy. The Global Focus Strategy seeks to invest in a small number of quality franchises the manager believes have the ability to materially improve their cash flows over the long-term. In choosing securities, the strategy seeks to invest in companies with one or more of the following characteristics: an entrenched competitive position, durable economic moats, and/or is priced at a discount to intrinsic value due to investor misconceptions. The minimum account market value required for inclusion in the Composite is $500,000.

3. The Composite creation date is June 1, 2020. The Composite inception date is September 1, 2017.

4. The benchmark is the FTSE All-World Developed Index. This index is a market-capitalization weighted index representing the performance of large and mid cap companies in developed markets. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization. "FTSE®", "Russell®", "MTS®", "FTSE TMX®" and "FTSE Russell" and other service marks and trademarks related to the FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.

5. The composite dispersion presented is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the Composite for the entire period.

6. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. The standard management fee schedule for separate accounts is as follows: 1.00% on all assets with a minimum account size of $50 million. Actual fees paid by accounts in the Composite may differ from the current fee schedule.

7. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2017, December 31, 2018 and December 31, 2019 because 36 month returns for the Composite were not available (N/A).

8. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.

9. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.

10. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

11. Past performance does not indicate future results.

12. This piece is provided for informational purposes only and should not be construed as a research report, a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned, including any mutual fund managed by Brown Advisory.

13. The following exhibit reflects the management fees, performance fees, and total expense ratios of the Brown Advisory Global Focus Onshore Fund, L.P. and Brown Advisory Global Focus Offshore Fund, LTD, which are included in the Composite, as of the most recent fiscal year end (December 31, 2020):