Global Focus Strategy

2022 Annual Review | January 2023

Dear fellow investors, colleagues and friends,

I hope you had a wonderful festive break with your families and that you are looking forward to 2023. 2022 was a dramatic year—one that was defined by the gravitational pull of the changes in the cost of capital for all investors—a topic we will return to later. Against this back-drop the Global Focus composite net of fees returned -16.7% for our partners. As primarily absolute return investors we remain uneasy about negative returns but take some modest consolation from the fact that Global Focus outperformed its benchmark, the MCSI World Index net return of -18.1%, in a period of shifting investment sands. This relative performance needs to be seen in the context of numerous headwinds, including an absence of energy investments and a weak Euro relative to the U.S. Dollar. Unfortunately, our partners can't eat relative returns but as firm believers that risk is defined as permanent destruction of capital[1] we remain confident that our companies are mitigating these risks and that there is significant latent value within the strategy. The 2022 performance brings annualised net of fees performance of 10.7% compared to 7.3% for the benchmark and cumulative performance to 71.9% since the strategy's inception on 1st September 2017.

At the company level, performance in 2022 was almost a mirror image of 2021 with our technology investments being the main detractors as Microsoft, Alphabet, Autodesk and Intuit shares suffered from equity market rotation. Elsewhere the share price performances of our companies that were either directly (Safran, Visa, Woodward, CTS Eventim) or indirectly (Deutsche Boerse) impacted by the COVID-19 pandemic serve as timely reminders of the importance of maintaining a long-term vision. We wrote about the mismatches between short-term perceptions and long-term realities for these companies in our 2021 annual review and are encouraged by their operational progress in 2022 as the world returned to some semblance of normality. Contrary to the prevailing wisdom of the recent past, human beings continue to value experiences. Travel and live entertainment demand returned with something of a bang in 2022 which benefitted Safran, Visa, Woodward and CTS Eventim. In addition, monetary policy drove a rebound in market volatility, with Deutsche Boerse being a major beneficiary. Finally, we welcomed two new investments, Terminix-Rentokil[2] and Intuit, into the strategy and we exited Charter Communications leaving Global Focus with eleven investments currently, as of 12/31/2022. We will touch on all the companies shortly.

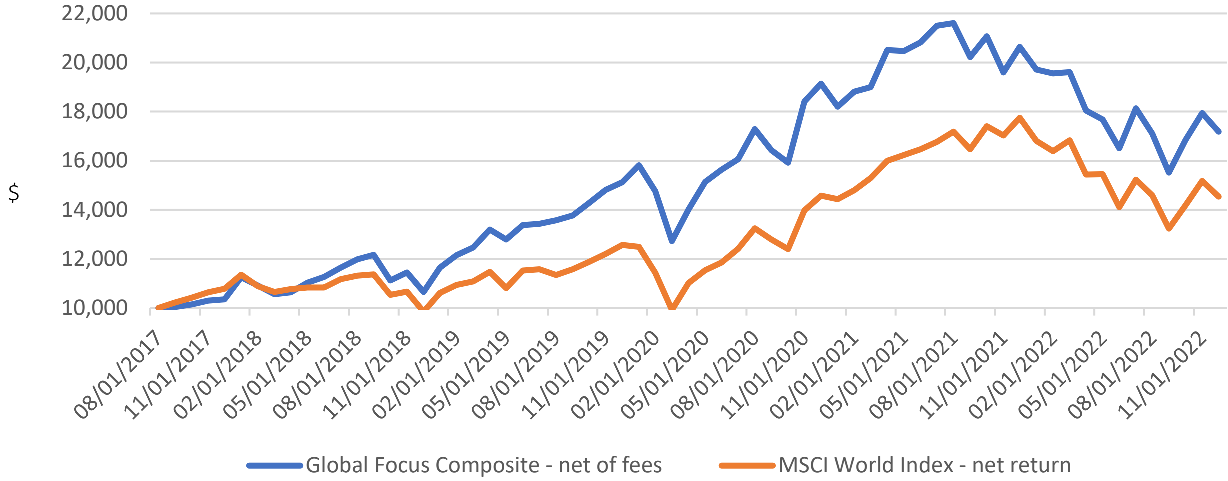
---

[1]That typically stems from a combination of competitive disruption, regulation and over paying for assets.

[2] Rentokil acquired Terminix in October 2022; we initially invested in Terminix and converted our investment into Rentokil at the time of the deal completing.

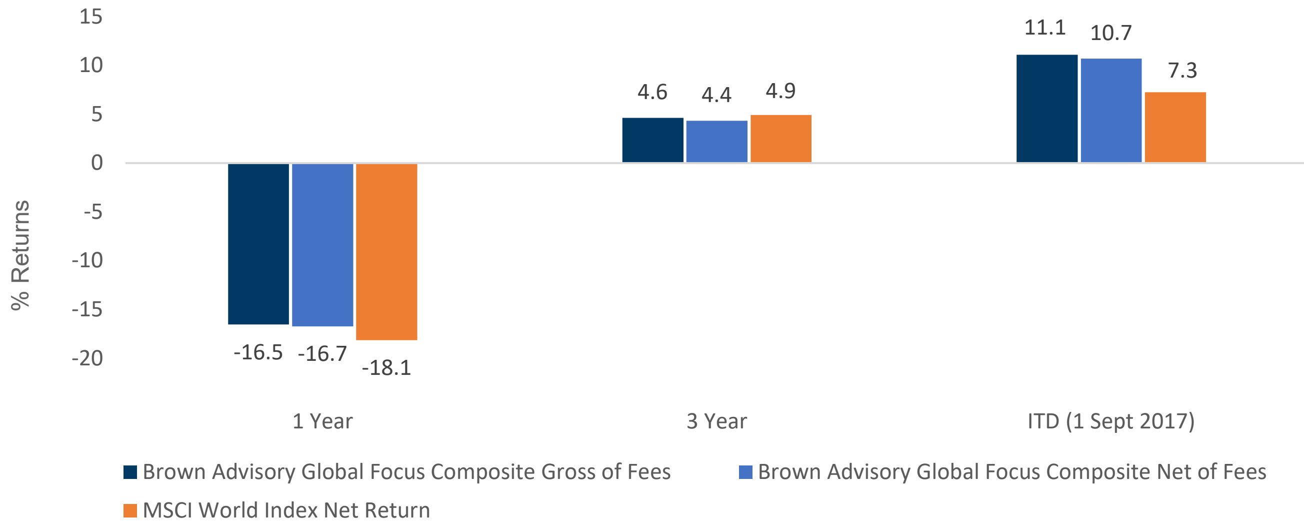
Cumulative Performance Summary: Growth of $10,000

Global Focus Composite net of fees vs. MSCI World Index net return from 1st Sept 2017 to 31st Dec 2022



Annualised Performance Summary

Global Focus Composite vs. MSCI World Index net return from 1st Sept 2017 to 31st Dec 2022



Source: Factset. Past performance is not indicative of future results and you may not get back the amount invested. Returns greater than one year are annualized. Performance reflects the Brown Advisory 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 end of this letter for important disclosures and a GIPS compliant presentation.

Past performance is not indicative of future results. Performance reflects the Brown Advisory Global Focus Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS compliant firm and is a division of Brown Advisory LLC. Portfolio level information is based on a Brown Advisory Global Focus representative account and is provided as supplemental information. Please see the end of this letter for important disclosures and a GIPS compliant presentation. 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.

Global Focus: Current Investments

From 1st September 2017 to 31st December 2022

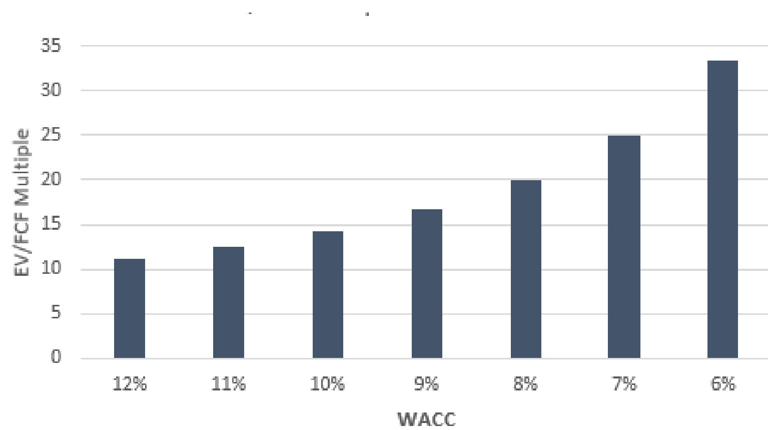
Company Name	Market Position	Market Structure	Date Invested	2022 Average Weight	2022 Absolute Return (%)	2022 Relative Return (%)	ITD Absolute Return (P.A.) %	ITD Relative Return (P.A.) %
Microsoft	Enterprise software leader and cloud follower	Monopoly and oligopoly	1-Sep-2017	14.5%	-28.0%	-9.9%	26.0%	18.9%
Safran	Narrowbody engine market leader	Duopoly	1-Sep-2017	11.5%	2.5%	20.6%	5.6%	-1.6%
Visa	Global payment network leader	Duopoly	1-Sep-2017	11.3%	-3.4%	14.8%	14.7%	7.6%
Alphabet	Digital search leader	Monopoly	1-Sep-2017	10.2%	-38.7%	-20.5%	12.7%	5.5%
Deutsche Boerse	Exchange and custody leader	Monopoly and duopoly	1-Sep-2017	10.1%	5.0%	23.2%	11.6%	4.4%
Terminix-Rentokil	Pest control leader	Oligopoly	20-Feb-2022	8.5%	4.6%	15.8%	4.6%	15.8%
Intuit	Financial software leader	Monopoly and oligopoly	4-Mar-2022	6.8%	-15.9%	-7.0%	-15.9%	-7.0%
Autodesk	Vertical AEC CAD software leader	Duopoly	22-Mar-2018	6.7%	-33.5%	-15.4%	7.7%	1.0%
Woodward	Niche aero engine part leader	Oligopoly	1-Sep-2017	5.6%	-11.1%	7.0%	6.9%	-0.3%
Wolters Kluwer	Niche publishing leader	Duopoly and oligopoly	2-Mar-2018	5.0%	-9.9%	8.2%	18.9%	12.4%
CTS Eventim	European ticketing leader	Monopoly	1-Sep-2017	4.9%	-13.1%	5.0%	7.8%	0.6%

Source: Factset. Average weight, absolute and relative returns shown above are for each investment during the time it was held within the portfolio, from date invested to 31st December 2022. Information shown is based on a representative Global Focus account and provided as Supplemental Information.

The Price of Time

Perhaps the defining topic for investors in 2022 was the rising cost of money as central bankers, spurred on by rising inflation, raised interest rates. We wrote extensively about the impact rising costs of capital have on asset values in our five-year letter in September (link here). The title to Edward Chancellor's excellent book *'The Price of Time'* captures the impact that interest rates have. In essence, they act as the price of forgoing consuming capital today in the economic equivalent of the famous Stanford University marshmallow experiment[3]. Interest rates impact the cost of debt which is one of the key ingredients of the cost of capital and as Chancellor reminds us: *'Capital value and interest are inversely related: a high discount rate or 'capitalisation rate' produces a low capital value and vice versa[4]'*. Accordingly, the fair value multiple that any asset should trade on is highly sensitive to its cost of capital as you can see in our illustration below where we have assumed a 3% terminal growth rate[5].

Theoretical Fair Value EV/FCF Multiple for 3% Terminal Growth



Source: Brown Advisory estimates.

As we have mentioned before, we felt that 2022 has been better than any CFA or MBA class on equity valuation as the cost of capital increased and asset values had to succumb to their gravitational pull. NYU Stern Professor Aswath Damodaran tracks this estimation of the ingredients that go into the cost of capital[6]: the cost of equity and the cost of debt. What's noteworthy about Damodaran's data for the U.S. market (see below) is the impact that the increase in the risk-free rate, for which he has used the Treasury Bond rate, has had on the cost of equity. The rising cost of equity has driven a rising expected return on stocks which has been expressed in the equity market weakness of 2022. Damodaran's work also shows how equity markets have benefitted from low risk-free rates following the accommodative monetary policy that was kickstarted by the onset of the COVID-19 pandemic. Chancellor wasn't lying—a high discount rate does indeed produce a low capital value and vice versa. Although we are not macro forecasters, indeed our whole process is designed to shield our investors from the vicissitudes of

[3] The 1972 Stanford marshmallow experiment was a study in delayed gratification. Children in the study were offered one small reward immediately or two rewards 15 minutes later. https://psycnet.apa.org/doiLanding?doi=10.1037%2Fh0029815

[4] Source: Edward Chancellor: *The Price of Time: The Real Story of Interest.*

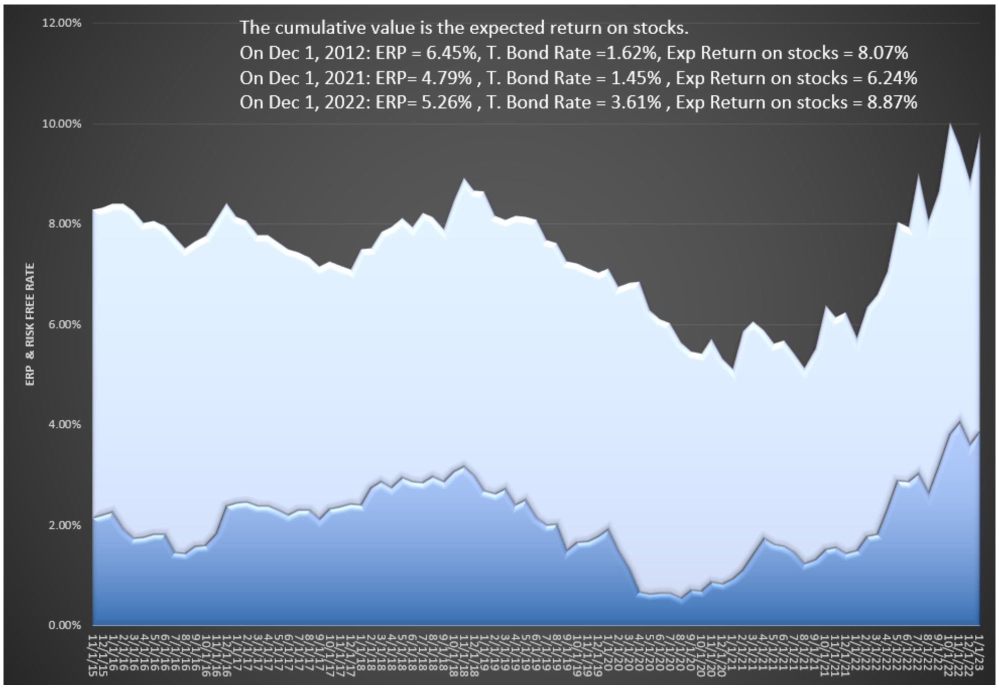
[5] Source: Brown Advisory estimates.

[6] Source: Aswath Damodaran: https://pages.stern.nyu.edu/~adamodar/

the economy, we continue to question our current discounted cash flow framework. We use a default 10% cost of capital which, despite much debate, we feel still provides sufficient margin of safety for our partners after having felt quite mean and curmudgeonly during the excesses of the last couple of years.

Equity Risk Premium and T. Bond Rates, Aswath Damodaran

1st Nov 2015 to 1st Jan 2023



Source: Aswath Damodaran: https://pages.stern.nyu.edu/~adamodar/

Positioning

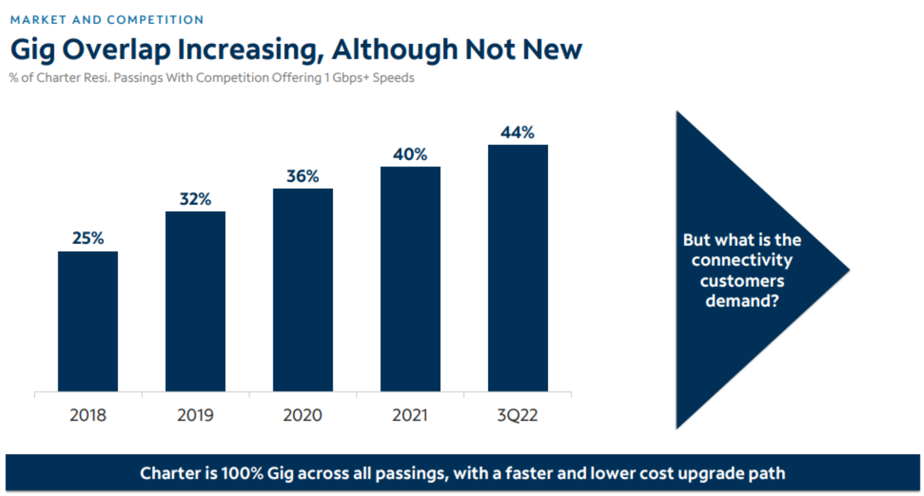
Following the disposal of Charter Communications, completed in April 2022, and the purchase of Rentokil in February[7] and Intuit in March, the Global Focus strategy currently has eleven investments. As decade long, concentrated investors, buying one new company a year is something of a victory with turnover very much an output of where we are finding opportunity. Indeed, buying two new companies in 2022 was the joint busiest calendar year in Global Focus history for new entrants—a cause for celebration if Rentokil and Intuit can deliver what we feel they are capable of long-term. Despite this seemingly frenetic level of activity, various bear

[7] We initially invested in Terminix on 20th February 2022 which was effectively synthetic Rentokil equity due to the financing of the Terminix acquisition by Rentokil.

market rallies prevented us from adding more companies to the strategy as the aforementioned repricing of time played out. If bouts of volatility persist into 2023 we expect to be able to capitalise on the pockets of value that the repricing reveals. With this in mind, we remain encouraged by the companies on our ready-to-buy list, our subs bench, that are now more realistically valued after the distortive effects of ultra-loose monetary policy have ended. From U.S. salvage yard operators, to Swiss speciality chemical companies and U.K. information services businesses, we remain excited about the opportunity to bring new and differentiated dominant business models into the strategy if the IRR stars align in 2023.

Disposals

Although eight months is too short a period of time to judge whether our sale of Charter Communications was definitively the right decision, the below slide from the company's recent investor day on 13th December reminded us of why we decided to liquidate our investment. Our concerns stemmed from a declined technological advantage in certain areas of their footprint due to fibre overbuilding—an arguably superior broadband product. This perspective was partially validated by the company's announcement of increasing investment at their investor day in December. We are in the process of completing an "After Action Review" on Charter—a powerful exercise where we reappraise our decision-making after the fact. Although I can't prejudge the outcome of the review, Charter's recent investor day didn't persuade us that our concerns about shrinking economic moats were unfounded. The below chart from the event shows the increasing competition the company has faced for fast 1-Gigabit broadband in their footprint.



Source: Charter Communications 2022 Investor Day.

Companies

As a reminder Global Focus is a concentrated (10-15 company) global equity strategy with a perspective that is longer than most—we have a genuine 10-year investment horizon and approach, investing as business owners with considerable amounts of our own capital invested. We look to invest our capital alongside our investors' in companies with the following attributes:

1. **Dominant business models –** evidence of clear competitive advantage, protected by a fortress of economic moats and significant value capture optionality through the delivery of a consumer surplus. We focus on companies that provide value for the customer that drives a Willingness to Pay (WTP) that we believe is above the current price of the good or services provided. WTP fosters sustainable like-for-like or latent pricing power.

2. **Improving returns on capital –** returns on incremental invested capital (ROIIC) that we estimate are above the prevailing return on capital (ROIC), more valuable future free cash flow (FCF) streams and investor managers that can add value through capital allocation.

3. **Cash flow-based payoff –** >15% five-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.

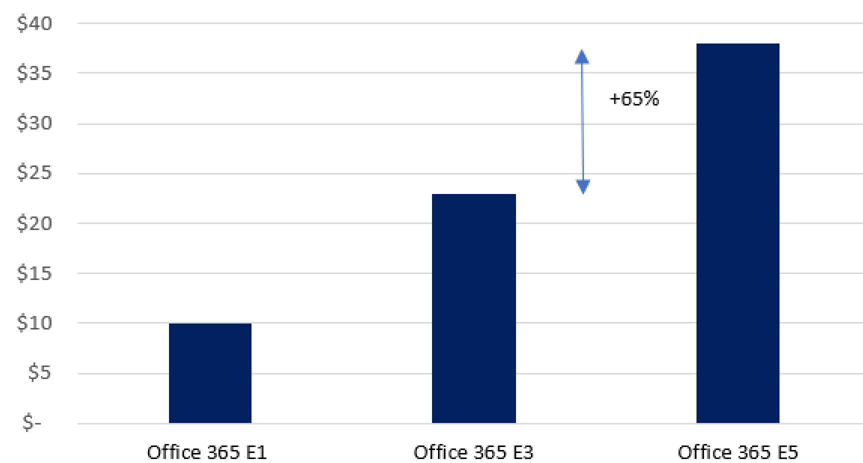
- **Microsoft[8] (13.1% NAV):** After a strong share price performance in 2021, Microsoft shares underperformed in 2022 on the back of sector rotation. The company remains the largest position in the Global Focus strategy due to its two monopoly assets (Office and Windows), an oligopoly position in cloud (Azure) and growing adjacent businesses whose products are increasingly sold into the enterprise through the Microsoft 365 sales initiative. Despite having to contest with some macroeconomic headwinds in areas like PC and strong previous year results, we feel that Microsoft performed admirably in 2022. The company grew revenue and operating profit by 15% and 16% respectively in the last quarter on a constant currency basis. Microsoft is targeting double digit top and bottom-line growth for 2023 which we think is achievable against a backdrop of IT spending that we expect to be resilient in the face of any macroeconomic downturn. Indeed, consultant Gartner expect IT spending to grow by 5% in 2023[9], which we think is reasonable given recent Chief Information Officer (CIO) surveys, and we expect Microsoft to continue taking market share. Longer term we expect continued growth in Intelligent Cloud

[8] Information in this section is sourced from Microsoft company reports and Brown Advisory estimates.
[9] Source: Gartner IT Spending Outlook: https://www.gartner.com/en/newsroom/press-releases/2022-10-19-gartner-forecasts-worldwide-it-spending-to-grow-5-percent-in-2023.

(primarily Azure) and Productivity and Business Process (primarily Office) to drive greater than mid-teens free cash flow growth for the company until the end of the decade. Part of this confidence stems from the ongoing monetisation of the Office 365 user base with Microsoft management recently commenting[10] that only 12% of Office Commercial 365 users were consuming their higher value E5 product at a time when the number of E5 users is growing by 60%. E5 provides more advanced analytics and security than the lower priced E3 and comes at a 65% price premium (see below). This ongoing migration of Office Commercial 365 customers is very similar to Microsoft's platform services strategy at Azure. We expect penetration of higher value products, with costs that are largely fixed, to be one of the major drivers of Microsoft's free cash flow growth going forward. Following relative underperformance, based on our estimates we see a 16% base case IRR for Microsoft shareholders over the next five years.

Microsoft Commercial Office 365 Monthly Pricing

As of January 2022



Source: Company Reports.

- **Aerospace: Safran (12.9% NAV) and Woodward (4% NAV)[11]:** We wrote extensively about our aerospace investments in our five-year letter in September (link here) and it's encouraging to see that end market recovery has continued. At the time of Safran's third quarter results in October, the company reported that narrowbody available seat

[10] Source: Microsoft 2022 results conference call.

[11] Information in this section is sourced from Safran and Woodward company reports and Brown Advisory estimates

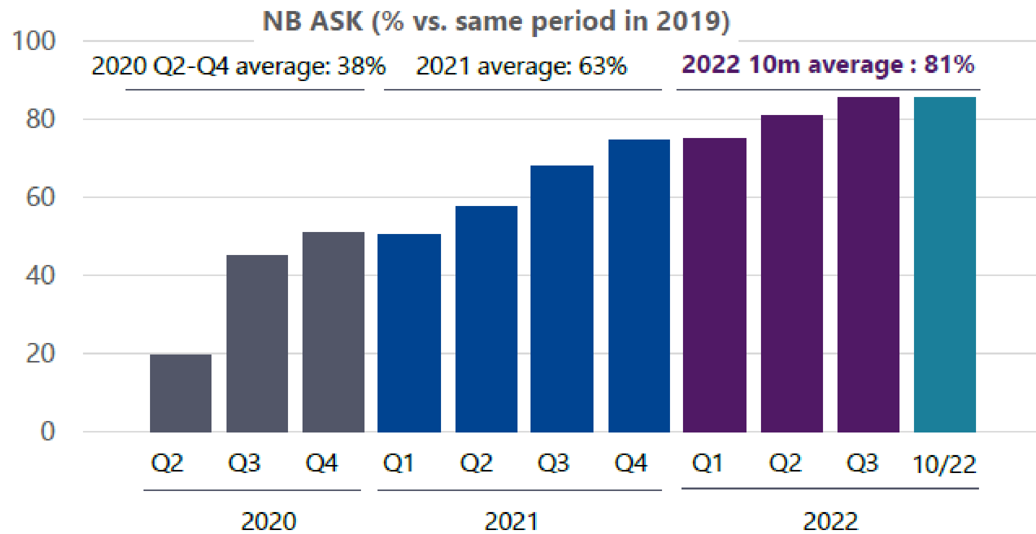
kilometres (ASK's) were 86%[12] of the corresponding period in 2019 (see below) and that U.S. and European passenger volumes were in line. At the time of writing we expect further progress over a busy holiday season and for the civil aftermarket to have rebounded in line with what Safran management's expectations were in 2022[13] (see below). China is the only country to have missed out on the recovery but the recently announced easing of travel restrictions and forward-looking booking information points to a rebound in the first half of 2023. We remain hopeful that the last vestiges of the COVID-19 pandemic will disappear. Against this backdrop, Safran continues to execute with the company delivering 17.5% organic sales growth in the first nine months of 2022 and increasing sales and free cash flow expectations throughout the year. Late in the year, we travelled to Paris to spend time with the Safran management team. We had a constructive discussion on a number of topics including: their decision to increase spare parts pricing by >10% to offset inflation, the pathway to >20% margins in their key propulsion business and their plans for the underperforming parts of their interiors operations with cabins being described as '*the Ikea of the airplane*' with low barriers to entry. The company is clearly benefiting from end market recovery and lower than expected deliveries at Boeing and Airbus—both of which are resulting in more profitable aftermarket activity for their installed base of engines. Elsewhere Woodward's civil aerospace business is also benefitting from the recovery with the group posting 17% organic growth in the last reported quarter. Despite management pointing to improvements in 2023 we feel that, due to ongoing supply chain issues, Woodward is currently underearning. We remain positive on the long-term potential of the company as we get closer to its aftermarket harvest period from 2026 and beyond. Execution remains the key issue and the main reason why we have maintained a modest position in Woodward. We had our first meeting with new CEO Chip Blankenship in the summer and we continue to try to hold management's feet to the fire in our discussions. We are encouraged by recent organisational changes that simplify the company's structure and usher in new leadership for Woodward's industrial business unit.

[12] Source: Safran third quarter 2022 results.

[13] Source: Safran Goldmans Sachs Industrial Conference 2022 presentation.

Global Narrowbody Available Seat Kilometres (NB ASK)

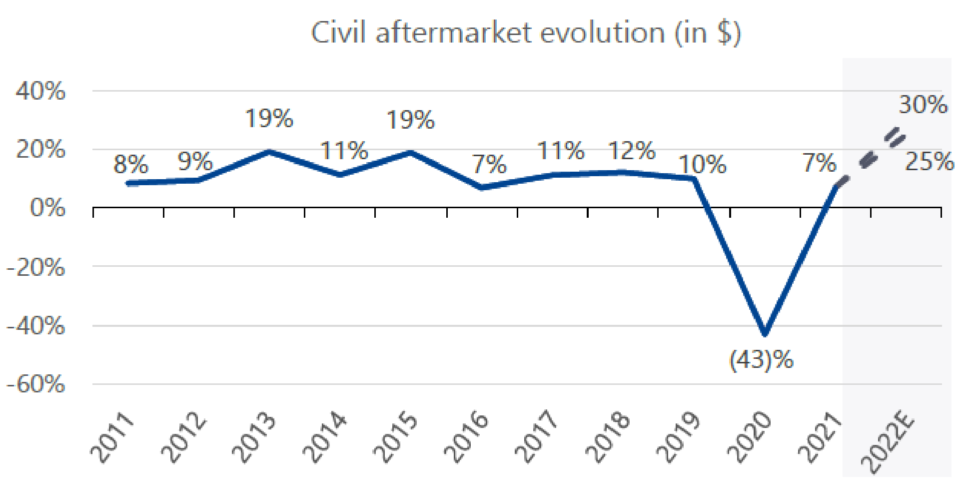
As of October 2022



Source: Safran company Reports.

Safran's Civil Aftermarket Evolution (in $)

As of December 2022



Source: Safran company reports.

Past performance is not indicative of future results. Performance reflects the Brown Advisory Global Focus Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS compliant firm and is a division of Brown Advisory LLC. Portfolio level information is based on a Brown Advisory Global Focus representative account and is provided as supplemental information. Please see the end of this letter for important disclosures and a GIPS compliant presentation. 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.

- **Deutsche Boerse (11.9% NAV)[14]:** Financial market infrastructure specialist Deutsche Boerse's performance in 2022 serves as a great reminder of the benefits of maintaining a long-term perspective. During 2021 and 2022 we conducted two drawdown reviews as the company's shares underperformed on the back of cyclical headwinds stemming from subdued volatility exacerbated by the aforementioned low interest rate environment. Volatility and interest rate normalisation returned in 2022 which contributed to 12% cyclical revenue growth in the first nine months of the year. This recovery contributed to Deutsche Boerse being the best performing Global Focus investment in 2022. Eurex (derivatives), 360T (currency) and EEX (energy) form the core of Deutsche Boerse's Trading and Clearing business and we expect demand for the risk management products that trade on these platforms to continue to normalise with the cost of capital. Elsewhere we remain positively surprised by the performance of the company's Data and Analytics business which posted 19% constant currency revenue growth in the third quarter of 2022. 60% of this business unit's economics are derived from ISS (ESG data and analytics) which Deutsche Boerse acquired in early 2021. We feel that investors have a mixed view of Deutsche Boerse's acquisition track record—a view that is not entirely justified in our view. The company's largest recent acquisition ISS continues to outperform initial expectations and underpins the revised >10%, largely structural, revenue growth outlook for their Data and Analytics business unit. We expect this combination of a more normal cyclical environment and further secular growth to drive double digit free cashflow growth at Deutsche Boerse for the foreseeable future which underpins our current 14% five-year base case IRR for investors.

- **Rentokil (10.7% NAV)[15]:** On 14th December 2021, Rentokil announced its planned acquisition of U.S. peer Terminix in a largely equity-financed deal. After a detailed examination of the benefits of combining the businesses, we invested in Terminix in February 2022 as a means of gaining an investment in Rentokil at an attractive 14% deal spread. We covered our Rentokil investment thesis in our April letter (link here) and presentation to the Manual of Ideas 'Wide Moat Investing Summit of 2022' (link here). Following regulatory approval for the acquisition, the deal spread closed and we converted our Terminix shares into Rentokil shares in October 2022 ahead of the shareholder vote. We remain attracted to the new leader in U.S. pest control—a largely non-deferrable demand industry that benefits from route-based densification which we expect to be turbo-charged by bringing the Rentokil and Terminix networks together. By adding more revenue to a lower combined fixed cost base, we expect significant synergies from the U.S. network to be supplemented by international growth and further acquisition activity. Towards the end of 2022, Rentokil reported its first trading update as the owner of Terminix. The group reported 6.2% organic revenue growth and positively

[14] Information in this section is sourced from Deutsche Boerse company reports and Brown Advisory estimates.
[15] Information in this section is sourced from Rentokil company reports and Brown Advisory estimates.

Terminix posted a similar level—the highest quarterly growth performance since 2014. We remain of the view that the existing Terminix self-help program '*The Terminix Way*' should deliver operational benefits over and above those that come from the integration with Rentokil and we were encouraged by the news that Terminix CEO Brett Ponton is expected to become the CEO of the combined group's North American business. Towards the end of the year, we met with Rentokil management who are enthused about the prospect of combining the two businesses—we expect their initial >$150m synergy target to be raised when the company releases its full year results in March. Our enthusiasm is modestly tempered by what could be a choppy integration process. After some prodding, CEO Andy Ransom conceded that their focus on the integration was partially to blame for the lacklustre Rentokil North American Pest Control growth of 3.5% in the third quarter of 2022. After having spoken to various pest control operators we are under no illusions of the complexity of combining over 700 branches and then closing more than 200 of them. Nevertheless, we view the long-term prize as worth any short-term integration volatility and see Rentokil capable of delivering a five year 13% FCF compound annual growth rate (CAGR) which underpins our 16% base case five-year IRR for investors.

- **Visa (9.8% NAV)[16]:** Deutsche Boerse wasn't the only of one of our companies to experience two drawdown reviews in quick succession in the COVID-19 period. We conducted reviews on Visa in January and September 2021 with share price weakness being driven by a trifecta of investor concerns: (1) travel-related cross-border weakness was acting as a drag on a very profitable revenue stream, (2) investors were increasingly worried about disintermediation risk from 'popularised' form factors like Buy Now Pay Later (BNPL) and (3) the company's dispute with Amazon was making headlines. During 2022, these concerns gradually sublimed as these seemingly solid bear cases melted into air. In line with Safran and Woodward, travel demand continued to recover during Visa's fourth quarter of 2022 with cross border travel volumes running at 116% of the corresponding period in 2019. Elsewhere, heightened regulatory scrutiny, rising delinquencies and funding concerns at a number of BNPL providers have materially undermined the sustainability of these business models and their ability to scale. As mentioned in the Global Focus five-year investment letter, we remain sceptical of old ideas dressed up in new-fangled clothing—instalment-based lending is not a new financial product. Finally, in February, Visa resolved its dispute with Amazon. For 2022 Visa reported 22% net revenue and 23% free cash flow growth on the back of 15% growth in payment volumes—helped by the aforementioned recovery and the benefit of inflation due to Visa's ad-valorem toll-both business model. Looking forward, we are not blasé about the potential risks of regulation and superior technology—the two forces that typically undermine advantaged infrastructure. With this in mind we continue to monitor Visa's progress in new payment flows and value-added services, which represent a third

[16] Information in this section is sourced from Visa company reports and Brown Advisory estimates.

of revenue today, as cash-to-card displacement continues in many parts of the world. We are encouraged by recent feedback on Visa's push payment service, Visa Direct, which likely only represents 5% of purchase volumes but grew by 36%[17] in 2022, well above the company-wide growth rate. Long term, we expect double digit payment volumes to underpin low-teens free cash flow growth for Visa which drives a 12% five-year base case IRR on our estimates.

- **Alphabet (8.6% NAV)[18]:** Although Google is the world's favourite search engine with 93% market share[19] it is easy to forget that advertising accounts for 78% of parent company Alphabet's revenues and more of free cash flow. As macroeconomic storm clouds gathered in 2022, Alphabet's revenue growth slowed against tough comparative results in 2021. In the third quarter of 2022, the company posted 11% constant currency growth with Google Search only growing by 4% and YouTube actually contracting on a reported basis with management blaming *"a pullback in spend by some advertisers".*[20] Alphabet continues to aggressively scale its cloud business with Google Cloud revenues growing 38% in the third quarter and market feedback continues to be positive. We believe that an outsized amount of company headcount is from employees that support cloud infrastructure which is in turn shared across Search, YouTube and the other advertising properties. Profitability remains a focus for many investors with Alphabet deleveraging in the third quarter of 2022 with cost of revenues and operating expenses growing by 13% and 26% respectively – faster than the company's 11% constant currency revenue growth. Although Alphabet has committed to a declining pace of headcount additions we expect the company to keep investing. We think there is a balance to be struck between operating leverage now and reinforcing one of the twenty first century's most formidable moats in the artificial intelligence (AI) arms race. On paper, Google Search could easily generate a 60% margin but we recognise that the technological threats are real. At the end of November, Microsoft-backed company OpenAI launched its AI chatbot, ChatGPT, which reportedly gained over a million users[21] within a week. Although ChatGPT is unlikely to be a credible threat to Google Search it serves as a reminder that technology exists that could one day challenge the search king's crown but only if the provider of that technology can build a genuine two-sided network.[22] Google Search's network is Alphabet's most powerful economic moat and one that, although facilitated by technology, exists due to the millions of advertisers and billions of consumers that form

[17] 36% Visa Direct growth for 2022 excludes the impact of Visa ending its operations in Russia which we assume to be a one-off

[18] Information in this section is sourced from Alphabet company reports and Brown Advisory estimates.

[19] Source: https://gs.statcounter.com/search-engine-market-share

[20] Source: Alphabet third quarter 2022 conference call.

[21] Source: https://appdevelopermagazine.com/Chatgpt-gains-1-million-users-within-5-days/

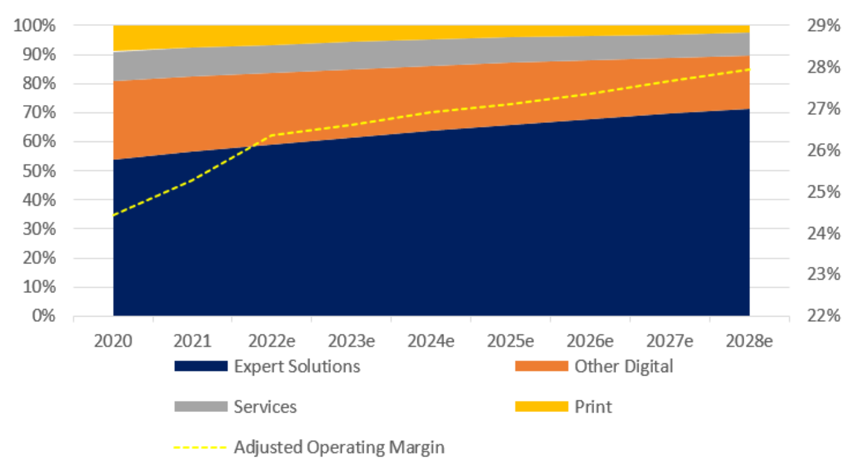
[22] We have a similar evergreen discussion on payments where the technology exists to build a rival to VisaNet. The sticking points are building scale, ubiquity and acceptance.

the nodes on both sides of the network. Unpicking these nodes will be no mean feat but we remain perpetually paranoid about any network that can genuinely take Google's throne. In a recessionary scenario, we expect Alphabet and Google Search to post negative revenue growth with the company returning to double digit growth over the medium term. Following share price weakness, we see 14% five-year IRR for Alphabet shareholders.

- **Wolters Kluwer (8.1% NAV)[23]:** Wolters Kluwer continued its pivot to becoming an expert solutions company in 2022 with the format growing faster than the group at 9% and accounting for 56% of total revenue in the first nine months of the year. Expert solutions are products that embed Wolters' rich content into software that provides productivity benefits for customers. UpToDate in Health, CCH Tagetik in Tax and Accounting and Enablon in Legal and Regulatory are all examples of expert solutions. These tools make their users more productive which in turn results in stickier customer relationships. Expert solutions also have software-esque margins at scale which underpins our expectations of faster growth and higher profitability at Wolters Kluwer *(see below).* In many cases Wolters Kluwer offers multiple software modules with meaningful potential for high margin cross-selling. The company posted 6% organic growth and 50 basis point (bp) margin improvement in the first nine months of 2022 and increased its free cash flow growth expectations for the year. We expect high single digit long-term free cash growth for Wolters Kluwer over the long term as the business model transition continues.

Wolters Kluwer Revenue Format (LHS) and Adj. Operating Margin (RHS) %

As of Jan 2023



Source: Wolters Kluwer company reports and Brown Advisory estimates.

---

[23] Information in this section is sourced from Wolters Kluwer company reports and Brown Advisory estimates.

- **Intuit (7.1% NAV)[24]:** In March, market volatility enabled us to make a new investment in tax and accounting software specialist Intuit—a company we had been monitoring on our ready-to-buy list for a number of years. We covered the Intuit investment case in our April investment letter (link here). We are attracted to the dominant positions that the company enjoys in tax, through its TurboTax product, and accounting with QuickBooks. We see material room for growth in Intuit's Consumer (Tax) and Small Business (QuickBooks) businesses through penetration and upselling higher value services like assisted product TurboTax Live and QuickBooks Payments. We also feel that Intuit continues to expand its moats and leverage its substantial datasets following the acquisitions of Credit Karma (2019) and MailChimp (2021). After our March purchase, Intuit shares actually fell further and we added to our position following a drawdown review. During the year we had multiple interactions with the company, its competitors and users. In September, we attended the Intuit investor day where management reiterated their expectation for 8-12%, 20-25% and 15-20% long-term annual revenue growth for the Consumer, Credit Karma and Small Business business units respectively. We have similar expectations for the group long-term which underpins our average 17% annual free cash growth estimate for 2023-30 and we see a 14% five-year base case return for Intuit investors currently.

- **CTS Eventim (5.4% NAV)[25]:** The COVID-19 pandemic was devastating for live entertainment and CTS Eventim was the most impacted of all the companies we invest in with sales dropping by 82% in 2020. A strong balance sheet and government support prevented permanent capital destruction for investors. During those dark times we always felt that the allure of live music would be undiminished and that demand could even come back stronger when the restrictions lifted. We just didn't know when. 2022 was the year—CTS Eventim sold 45m online tickets in the first nine months of 2022 which is 22% more than the same period in the last pre-pandemic year of 2019. This performance coincided with record ticket price inflation of >15% and a recovery in live entertainment to drive a 180% and 150% increase in revenue and profits for the company in the first nine months of 2022 relative to 2019. Advance payments on the balance sheet also suggest that the momentum should continue into 2023—a view that was confirmed in our meetings with the company and competitor LiveNation before Christmas. CTS Eventim's ticketing business has numerous attractions—we see scope for further monetisation of the two-sided network with mobile ticketing and e-commerce. We also expect additional growth to come from international expansion in France and the U.S. We see a 10% five-year base case IRR for CTS Eventim investors after the shares rebounded in 2022 which is reflected in the position size.

---

[24] Information in this section is sourced from Intuit company reports and Brown Advisory estimates.

[25] Information in this section is sourced from CTS Eventim company reports and Brown Advisory estimates.

- **Autodesk (4.9% NAV)[26]:** Computer-aided design (CAD) software specialist Autodesk produced an admirable performance in 2022 despite macroeconomic uncertainty and currency headwinds. The company's core products AutoCAD, Revit, Inventor and Fusion provide productivity benefits to their users and the recent transition to a subscription business model should provide more cash flow stability. Against this backdrop, the company grew revenue by 15% on a constant currency basis in the most recent quarter. We believe that double digit revenue and free cash flow growth is achievable long term from a combination of user growth, pricing power, monetisation of non-compliant users and expansion in new areas in construction and manufacturing. Despite these long-term attractions, Autodesk's decision to curtail offering large customers a discount from paying for three years of software subscriptions upfront is expected to create a short-term headwind to free cash flow this year. We actually welcome this move—the company is in effect taking a price increase and the absence of lumpy prepayments should smooth out free cash flow long term. Investor concerns about these temporary free cash flow headwinds combined with sector rotation to create weakness in Autodesk shares in 2022. We see an 11% five-year base case IRR for Autodesk investors.

And Finally…

In the Book of Revelations, at the very end of The Bible, John of Patmos characterises The Four Horsemen of the Apocalypse as: conquest[27], war, famine and death. Although we haven't seen each of The Horsemen in the flesh, during the first five years and three months of Global Focus's existence, we had to contend with the COVID-19 pandemic, the first major land war in Europe since the 1990s and a monetary policy volte-face that will no doubt contribute to the end of many companies over the next couple of years. Against this backdrop, we continue to look for businesses that we believe will prove resilient as they deliver sizeable consumer surpluses and are protected by fortresses of expanding economic moats. Much brain damage is inflicted by financial commentators on the precise evolution of the future when the majority of what happens in the future is inherently unknowable. *What will inflation be in 2024? Will we have a classic recession or something different? When will the Federal Reserve cut interest rates? Q*uestions that are incredibly hard to answer with any degree of certainty given all the inputs. Despite this reality, it's mind-boggling[28] when you meet people who seem to know the answers to these questions with a high-degree of confidence. We spend less time on the unknowable and more time looking for tight probability investments. Although we have no insight into what mood central bankers will be in in 2027, we are reasonably confident that Microsoft Office 365, Deutsche Boerse's Eurex, Safran's CFM56 and LEAP engines, Intuit's Quickbooks and CTS

[26] Information in this section is sourced from Autodesk company reports and Brown Advisory estimates.
[27] Some scholars interpret the first Horseman as 'pestilence'.
[28] …and also vaguely amusing!

Eventim's ticketing network will remain the dominant business models in their respective industries. After a negative absolute return in 2022, we feel that there is significant latent value within the strategy (see below) for those investors that have the patience and fortitude to wait. On our estimates, Global Focus trades on a 9x EV/FCF in 2027 (11% FCF/EV yield). We believe that if our estimates are vaguely correct, 9x EV/FCF 2027 is incredibly good value for the collection of dominant business models in which we invest—with an implied IRR of 21%[29] for the patient investor. Many thanks for reading our 2022 annual review and please get in touch (globalfocus@brownadvisory.com) if you would like to discuss Global Focus, the companies or anything else. We look forward to catching up with you in 2023.

Best,

Bertie Thomson

[29] On a constant 2022 FCF/EV multiple of 23.4x – this is higher than out conservative company-specific IRR assumptions.

Company	FY22 FCF/EV Yield	FY27 FCF/EV Yield	LT FCF Growth (2028-32)
Microsoft	4.5%	14.1%	13%
Safran	2.5%	9.5%	8%
Deutsche Boerse	5.8%	13.9%	8%
Rentokil	4.8%	10.6%	10%
Visa	3.9%	8.9%	10%
Alphabet	6.0%	16.4%	9%
Wolters Kluwer	4.6%	8.4%	9%
Intuit	3.6%	11.3%	14%
CTS Eventim	6.1%	11.5%	9%
Autodesk	2.9%	12.1%	10%
Woodward	4.2%	7.7%	8%
Global Focus Median	4.5%	11.3%	9.0%
Global Focus Weighted Average	**4.3%**	**11.1%**	**9.5%**
Global Focus Weighted Average EV/FCF	**23.4x**	**9.0x**	

Source: Factset and Brown Advisory Estimates as of 31st December 2022. Information shown is based on a representative Global Focus account and provided as Supplemental Information.

Bertie Thomson, CFA
Portfolio Manager

Mick Dillon, CFA
Portfolio Manager

Disclosures

Past performance may not be a reliable guide to future performance and investors may not get back the amount invested. All investments involve risk. The value of the investment and the income from it will vary. There is no guarantee that the initial investment will be returned. If you are a private investor you should not act or rely on this document and should consult with your financial adviser.

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

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

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries*. With 1,516 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. (*DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US.) All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries.

An investor cannot invest directly into an index.

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.

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.

Free cash flow (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.

Free cash flow per share is a measure of a company's financial flexibility that is determined by dividing free cash flow by the total number of shares outstanding.

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

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.

Weighted average cost of capital (WACC) represents a firm's average after-tax cost of capital from all sources, including common stock, preferred stock, bonds, and other forms of debt. WACC is the average rate that a company expects to pay to finance its assets.

Absolute return is the return that an asset achieves over a specified period. This measure looks at the appreciation or depreciation, expressed as a percentage, that an asset, such as a stock or a mutual fund, achieves over a given period.

Relative return is the return an asset achieves over a period of time compared to a benchmark. The relative return is the difference between the asset's return and the return of the benchmark. Relative return can also be known as alpha in the context of active portfolio management.

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

Return on incremental invested capital (ROIIC) is a measure reviewed by management to determine the effectiveness of capital deployed.

Volatility is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index.

The compound annual growth rate (CAGR) is the rate of return (RoR) 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 period of the investment's life span.

Global Focus Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Bench-mark 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)*
2021	7.7	7.4	21.8	19.3	17.1	Five or fewer	N/A	59	79,715
2020	27.0	26.6	15.9	19.6	18.3	Five or fewer	N/A	32	59,683
2019	42.7	42.1	27.7	N/A	N/A	Five or fewer	N/A	12	42.426
2018	3.4	2.9	-8.7	N/A	N/A	Five or fewer	N/A	4	30,529
YTD 2017**	3.7	3.5	7.9	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, 2021. 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 MSCI World Net Index. The MSCI World Net Index captures large and mid cap representation across Developed Markets (DM) countries. The Index covers approximately 85% of the free float-adjusted market capitalization in each country. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.

5. As of September 1, 2022, the Composite benchmark was changed from the FTSE All-World Developed Index to the MSCI World Net Index. The change was applied retroactively from the Composite inception date. The Advisor determined that MSCI indices are more widely used for global products, and thereby provide more relevant data to shareholders and prospects as well as comparisons to competitors.

6. 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.

7. 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.

8. 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).

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

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

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

12. Past performance does not indicate future results.

13. 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.

14. 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, 2021):

BROWN ADVISORY GLOBAL FOCUS ONSHORE FUND, L.P.	Management Fee	Incentive Allocation	Expense Cap	Total Expense Ratio to Avg Net Assets	
				Unrestricted	Restricted
Series A	1.00%	0.00%	0.25%	N/A	N/A
Series B	0.60%	10.00%	0.25%	N/A	N/A
Series C	0.30%	20.00%	0.25%	N/A	N/A
Series F	0.50%	0.00%	0.25%	0.74%	N/A
Series Z	0.00%	0.00%	0.25%	0.23%	0.38%
BROWN ADVISORY GLOBAL FOCUS OFFSHORE FUND, LTD.	Management Fee	Incentive Allocation	Expense Cap	Total Expense Ratio to Avg Net Assets	
				Unrestricted	Restricted
Class A	1.00%	0.00%	0.25%	1.03%	N/A
Class B	0.60%	10.00%	0.25%	N/A	N/A
Class C	0.30%	20.00%	0.25%	N/A	N/A
Class Z	0.00%	0.00%	0.25%	0.22%	0.25%
Class F	0.50%	0.00%	0.25%	0.73%	0.76%
Class FD	0.50%	0.00%	0.15%	N/A	N/A
Class FD£	0.50%	0.00%	0.15%	0.22%	N/A