

# DEWEY BEACH

December 31, 2022

# GLOBAL MARKETS REWIND

As of December 31, 2022

Total Returns*	Quarter-to-date	Year-to-date	Trailing 3-Year	Trailing 5-Year
S&P® 500 Index	7.5%	-18.1%	7.6%	9.4%
Russell 2000® Index	6.2%	-20.5%	3.1%	4.1%
MSCI EAFE Net Total Return Index	17.3%	-14.5%	0.9%	1.5%
MSCI Emerging Markets Net Total Return Index	9.7%	-20.1%	-2.7%	-1.4%
Bloomberg U.S. Aggregate Bond Index	1.9%	-13.0%	-2.7%	0.0%
Bloomberg Municipal 1-10 Year Blend Index	3.1%	-4.8%	-0.1%	1.4%
Bloomberg U.S. Corporate High-Yield Index	4.2%	-11.2%	0.0%	2.3%
Bloomberg Commodity Total Return Index	2.2%	16.1%	12.6%	6.4%

Chart Data: 12/31/2021 – 12/31/2022



## Key Market Dynamics:

- Financial markets rallied in October and November due to signs of cooling inflation and speculation that the pace of central bank tightening will slow down.
- However, while inflation indicators have shown signs of price gains slowing, central banks remain committed to getting inflation back to target. We believe that economic indicators are weakening further as tighter monetary conditions impact growth.
- Non-U.S. markets rebounded in Q4 due to a weakening U.S. dollar and a loosening of zero-COVID policies in China, in our view. Valuations remain low in non-U.S. markets amidst a challenging economic environment.
- Longer-term interest rates fell in Q4, signaling investor expectations that a recession is likely and could lead central banks to pivot their policy.

Source: Bloomberg. \*Total returns greater than one year are reported as annualized returns. Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information.

# ACCOUNT SUMMARY

All Accounts

As of 12/31/2022

Accounts	Cash	Fixed Income	Large Cap U.S. Equities	Small/Mid Cap U.S. Equities	Global/Developed International	Emerging Markets	Total
Town Of Dewey Beach, Delaware - General Fund (Short)	549,320 41.2%	783,401 58.8%	0	0	0	0	\$1,332,721 21.5%
Town Of Dewey Beach, Delaware - Beach Replenishment (Short)	79,677 41.0%	114,794 59.0%	0	0	0	0	\$194,471 3.1%
Town Of Dewey Beach, Delaware - Beach Replenishment (Long) (FI)	21,582 0.7%	3,187,649 99.3%	0	0	0	0	\$3,209,232 51.7%
Town Of Dewey Beach, Delaware - Beach Replenishment (Long) (FE)	21,683 3.1%	0	671,313 96.9%	0	0	0	\$692,996 11.2%
Town Of Dewey Beach, Delaware - Beach Replenishment (Long)	311,900 39.8%	0	0	152,801 19.5%	177,095 22.6%	140,971 18.0%	\$782,767 12.6%
<b>Total</b>	<b>\$984,162</b> 15.8%	<b>\$4,085,844</b> 65.8%	<b>\$671,313</b> 10.8%	<b>\$152,801</b> 2.5%	<b>\$177,095</b> 2.9%	<b>\$140,971</b> 2.3%	<b>\$6,212,187</b> 100.0%

# PORTFOLIO OVERVIEW

Group: Town Of Dewey Beach, Delaware - Beach Replenishment (Long)

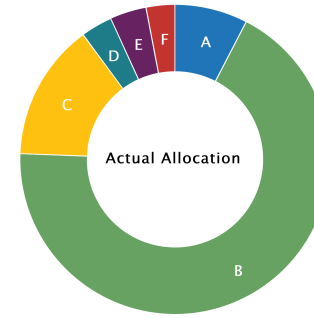
As of 12/31/2022

## Performance History

Performance Inception Date: 01/31/2015

	Market Value	Inception to Date	Trailing 3 Years	Trailing 12 Months	Quarter to Date
Cash & Equivalents	\$355,165	--	--	1.1	0.7
Fixed Income	\$3,187,649	0.5	-1.9	-9.4	1.5
Equities	\$1,142,180	7.8	3.9	-20.3	8.6
MSCI All Country World Net		7.0	4.0	-18.4	9.8
<b>TOTAL PORTFOLIO - GROSS</b>	<b>\$4,684,995</b>	<b>2.8</b>	<b>0.5</b>	<b>-12.7</b>	<b>3.6</b>
<b>TOTAL PORTFOLIO - NET</b>	<b>\$4,684,995</b>	<b>2.4</b>	<b>0.1</b>	<b>-13.0</b>	<b>3.5</b>
*Blended Benchmark		2.5	-0.1	-11.2	3.8

## Asset Allocation

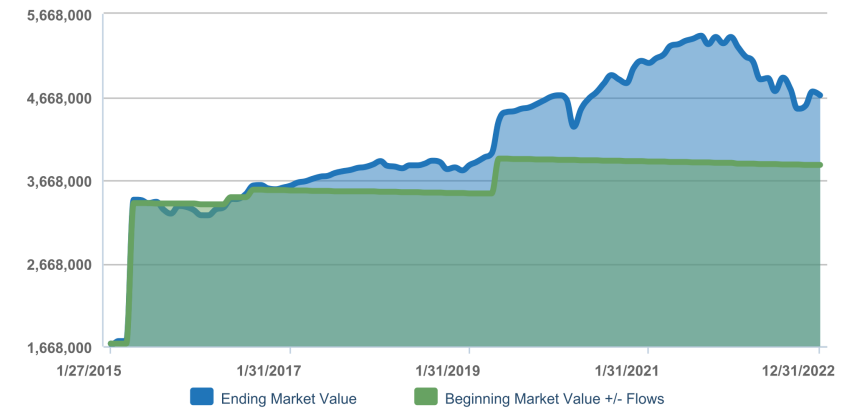


Asset Class	Weight	Target
A Cash	7.6%	3.0%
B Fixed Income	68.0%	72.0%
C Large Cap U.S. Equities	14.3%	15.0%
D Small/Mid Cap U.S. EQY	3.3%	3.5%
E Global/Developed Int'l	3.8%	3.5%
F Emerging Markets	3.0%	3.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Change in Portfolio

	Inception to Date 01/27/2015	Trailing 3 Years	Trailing 12 Months	Quarter to Date
<b>Beginning Portfolio Value</b>	<b>1,699,751</b>	<b>4,671,154</b>	<b>5,387,071</b>	<b>4,525,275</b>
Net Contributions / Withdrawals	2,151,695	-63,979	-21,658	-4,760
Market Value Gain / Loss	197,639	-147,718	-755,369	132,628
Income and Capital Gains	635,910	225,538	74,951	31,852
<b>Ending Market Value</b>	<b>\$4,684,995</b>	<b>\$4,684,995</b>	<b>\$4,684,995</b>	<b>\$4,684,995</b>

## Historical Market Value



All asset class and sub-category performance returns are gross of account-level management fees, but net of mutual fund expenses and private equity and real estate administrative fees. Investment performance is updated multiple times each month as new information is received. Because of this, returns may vary from previously reported numbers.

All performance and market values shown exclude the value of unsupervised assets, but are inclusive of accrued interest.

\*Blended Benchmark: 3% Merrill Lynch 0-3 Month US Treasury Bill Index, 72% Bloomberg Intermediate Aggregate, 25% FTSE Global All Cap Net Performance for periods greater than one year are annualized.

# PERFORMANCE DETAIL

Group: Town Of Dewey Beach, Delaware - Beach Replenishment (Long)

As of 12/31/2022

	Market Value	Asset Weighting	Investment Inception	Investment Inception to Date	Trailing 3 Years	Trailing 12 Months	Quarter to Date
<b>Fixed Income Taxable Funds</b>							
<b>Brown Advisory Intermediate Income Fund</b>	<b>\$3,187,649</b>	<b>68.04%</b>	<b>02/28/2015</b>	<b>0.7</b>	<b>-1.9</b>	<b>-9.4</b>	<b>1.3</b>
Bloomberg Intermediate Aggregate				0.8	-1.9	-9.5	1.7
<b>Separately Managed Equity Portfolios</b>							
<b>Flexible Equity Portfolio</b>	<b>\$692,996</b>	<b>14.79%</b>	<b>01/31/2015</b>	<b>10.8</b>	<b>6.1</b>	<b>-21.1</b>	<b>7.5</b>
S&P 500				10.7	7.7	-18.1	7.6
<b>U.S. Small/Mid Cap Equity Funds</b>							
<b>Brown Advisory Sustainable Small-Cap Core Fund</b>	<b>\$152,801</b>	<b>3.26%</b>	<b>11/30/2021</b>	<b>-16.0</b>	<b>--</b>	<b>-20.0</b>	<b>6.0</b>
Russell 2000				-17.3	3.1	-20.4	6.2
<b>Global/Developed International Funds</b>							
<b>Brown Advisory Global Leaders Fund</b>	<b>\$177,095</b>	<b>3.78%</b>	<b>04/30/2020</b>	<b>9.4</b>	<b>--</b>	<b>-19.5</b>	<b>11.6</b>
MSCI All Country World Net				10.1	4.0	-18.4	9.8
<b>Emerging Markets Funds</b>							
<b>BA Emerging Markets Select Fund</b>	<b>\$140,971</b>	<b>3.01%</b>	<b>05/31/2019</b>	<b>4.5</b>	<b>0.8</b>	<b>-15.1</b>	<b>11.3</b>
MSCI Emerging Markets Net				1.3	-2.7	-20.1	9.7

All performance returns are gross of account-level management fees. However, mutual fund returns are net of fund expenses, and private equity and real estate are net of administrative fees. Investment performance is updated multiple times each month as new information is received. Because of this, returns may vary from previously reported numbers. All performance returns exclude the value of unsupervised assets, but are inclusive of accrued interest. Performance for periods greater than one year are annualized.

# PORTFOLIO OVERVIEW

Group: Town Of Dewey Beach, Delaware - Beach Replenishment (Short)

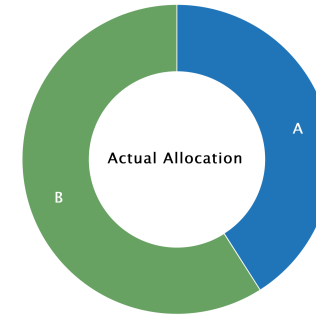
As of 12/31/2022

## Performance History

Performance Inception Date: 01/31/2015

	Market Value	Inception to Date	Trailing 3 Years	Trailing 12 Months	Quarter to Date
Cash & Equivalents	\$79,677	0.9	0.7	1.6	1.0
Fixed Income	\$114,794	--	--	-9.4	1.5
<b>TOTAL PORTFOLIO - GROSS</b>	<b>\$194,471</b>	<b>0.0</b>	<b>-1.6</b>	<b>-5.0</b>	<b>1.3</b>
<b>TOTAL PORTFOLIO - NET</b>	<b>\$194,471</b>	<b>-0.2</b>	<b>-1.8</b>	<b>-5.1</b>	<b>1.2</b>
Merrill Lynch 0-3 Month US Treasury Bill Index		0.9	0.7	1.5	0.9

## Asset Allocation

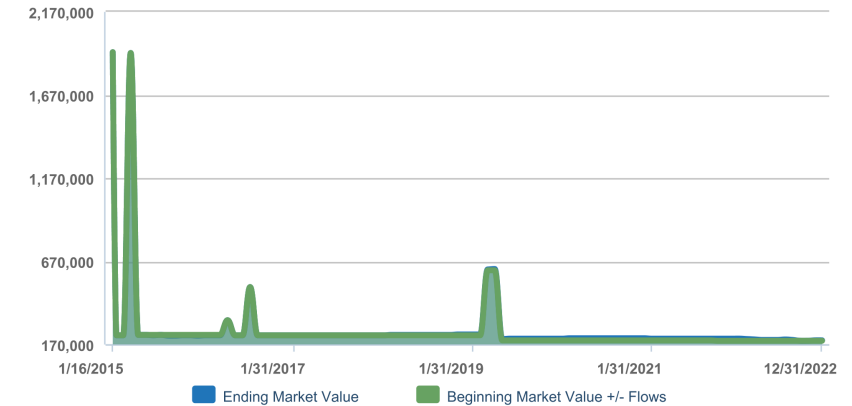


Asset Class	Weight	Target
<b>A</b> Cash	41.0%	40.0%
<b>B</b> Fixed Income	59.0%	60.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Change in Portfolio

	Inception to Date 01/16/2015	Trailing 3 Years	Trailing 12 Months	Quarter to Date
<b>Beginning Portfolio Value</b>	<b>1,926,734</b>	<b>205,291</b>	<b>204,955</b>	<b>192,118</b>
Net Contributions / Withdrawals	-1,734,137	-1,319	-150	-38
Market Value Gain / Loss	-23,669	-15,377	-13,236	951
Income and Capital Gains	25,543	5,876	2,902	1,440
<b>Ending Market Value</b>	<b>\$194,471</b>	<b>\$194,471</b>	<b>\$194,471</b>	<b>\$194,471</b>

## Historical Market Value



All asset class and sub-category performance returns are gross of account-level management fees, but net of mutual fund expenses and private equity and real estate administrative fees. Investment performance is updated multiple times each month as new information is received. Because of this, returns may vary from previously reported numbers. All performance and market values shown exclude the value of unsupervised assets, but are inclusive of accrued interest. Performance for periods greater than one year are annualized.

# PORTFOLIO OVERVIEW

Group: Town Of Dewey Beach, Delaware - General Fund (Short)

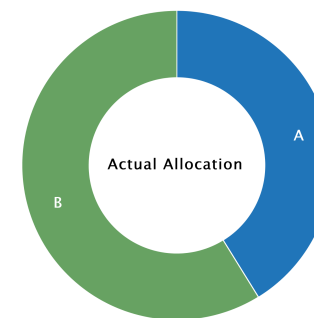
As of 12/31/2022

## Performance History

Performance Inception Date: 01/31/2015

	Market Value	Inception to Date	Trailing 3 Years	Trailing 12 Months	Quarter to Date
Cash & Equivalents	\$549,320	0.9	0.7	1.6	1.0
Fixed Income	\$783,401	--	--	-9.4	1.5
<b>TOTAL PORTFOLIO - GROSS</b>	<b>\$1,332,721</b>	<b>0.1</b>	<b>-1.6</b>	<b>-5.0</b>	<b>1.2</b>
<b>TOTAL PORTFOLIO - NET</b>	<b>\$1,332,721</b>	<b>-0.1</b>	<b>-1.7</b>	<b>-5.0</b>	<b>1.2</b>
Merrill Lynch 0-3 Month US Treasury Bill Index		0.9	0.7	1.5	0.9

## Asset Allocation

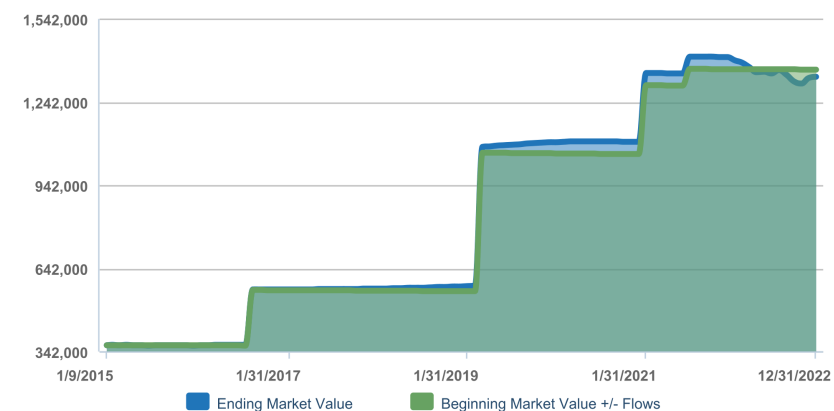


Asset Class	Weight	Target
<b>A</b> Cash	41.2%	40.0%
<b>B</b> Fixed Income	58.8%	60.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Change in Portfolio

	Inception to Date 01/09/2015	Trailing 3 Years	Trailing 12 Months	Quarter to Date
<b>Beginning Portfolio Value</b>	<b>364,182</b>	<b>1,096,064</b>	<b>1,403,848</b>	<b>1,316,611</b>
Net Contributions / Withdrawals	994,831	302,025	-1,047	-269
Market Value Gain / Loss	-108,066	-102,788	-89,905	6,512
Income and Capital Gains	81,774	37,420	19,825	9,867
<b>Ending Market Value</b>	<b>\$1,332,721</b>	<b>\$1,332,721</b>	<b>\$1,332,721</b>	<b>\$1,332,721</b>

## Historical Market Value



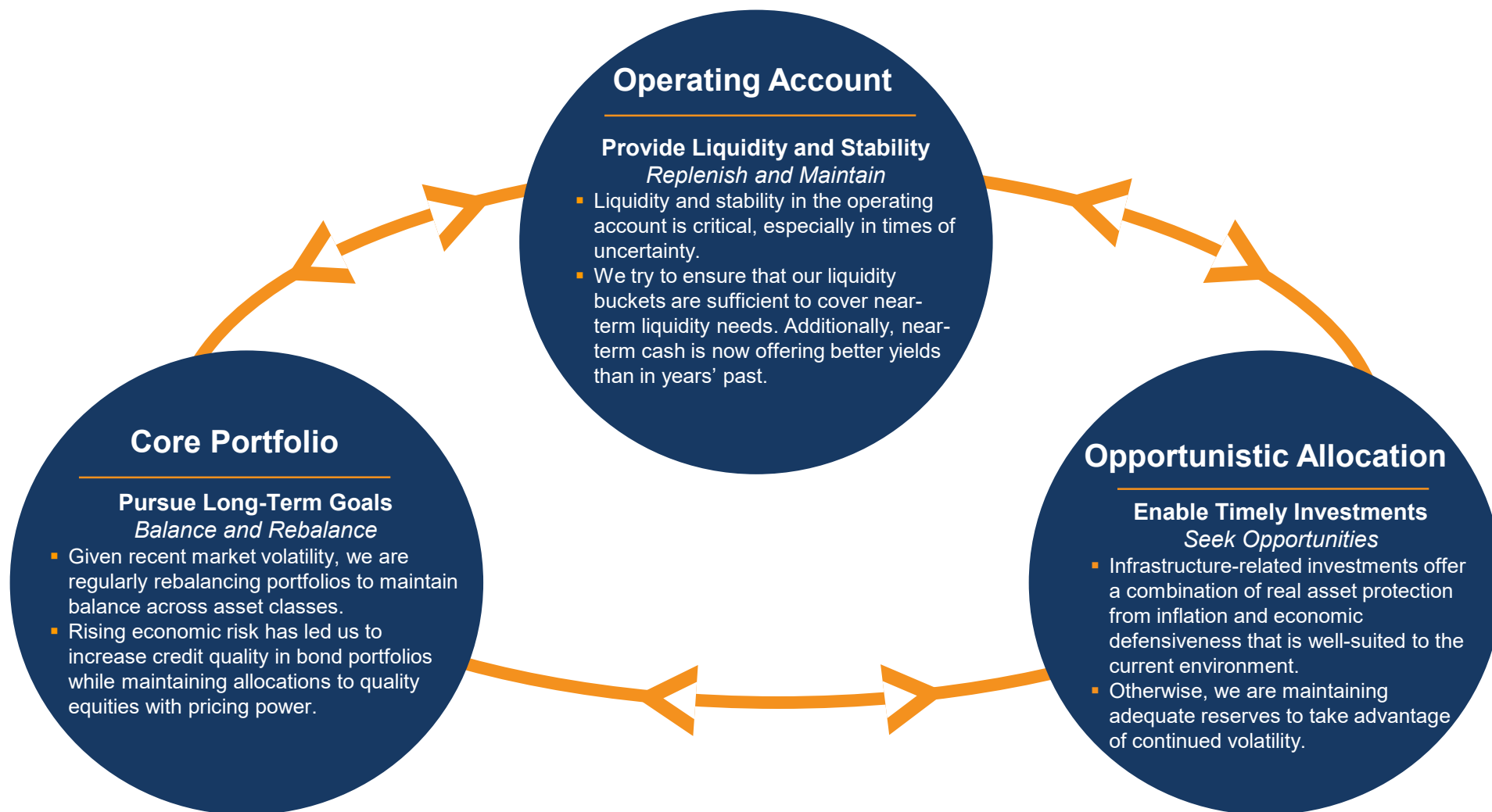
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Performance for periods greater than one year are annualized.

## ECONOMIC & MARKET OVERVIEW

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## The Three-Bucket Approach

Brown Advisory adheres to a “three-bucket” approach to portfolio construction. In practice, all three buckets may be part of the same portfolio, but we believe that it is useful to separate them conceptually. The diagram below illustrates how the three-bucket approach helps ensure adequate liquidity and manage risks, particularly during periods of elevated uncertainty.



# KEY QUESTIONS FOR 2023 AND BEYOND

As of December 31, 2022

- **Inflation** – does the steep decline in inflation within goods spread to a broader decline in inflation?
- **Federal Reserve** – to what extent can the Federal Reserve and other central banks around the world pivot to provide support for the economy in order to mitigate the economic slowdown?
- **Soft or Hard Landing** – the slowdown seen in 2022 is likely to continue as the impact of higher interest rates (which typically has a lagged effect) permeates through the economy, but can strong private sector balance sheets and potential central bank pivot prevent a sharp recession?
- **Labor** – is the strong labor and wage growth sustainable despite the slower economic growth or does the tightness in the labor market finally break?
- **Valuations** – how do valuations react to shifts in interest rates moving forward?
- **Geopolitics** – amidst the multiple key flashpoints in the current geopolitical landscape, do tensions continue to widen divisions and further the trend toward nationalism?

Source: Brown Advisory Analysis

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information.

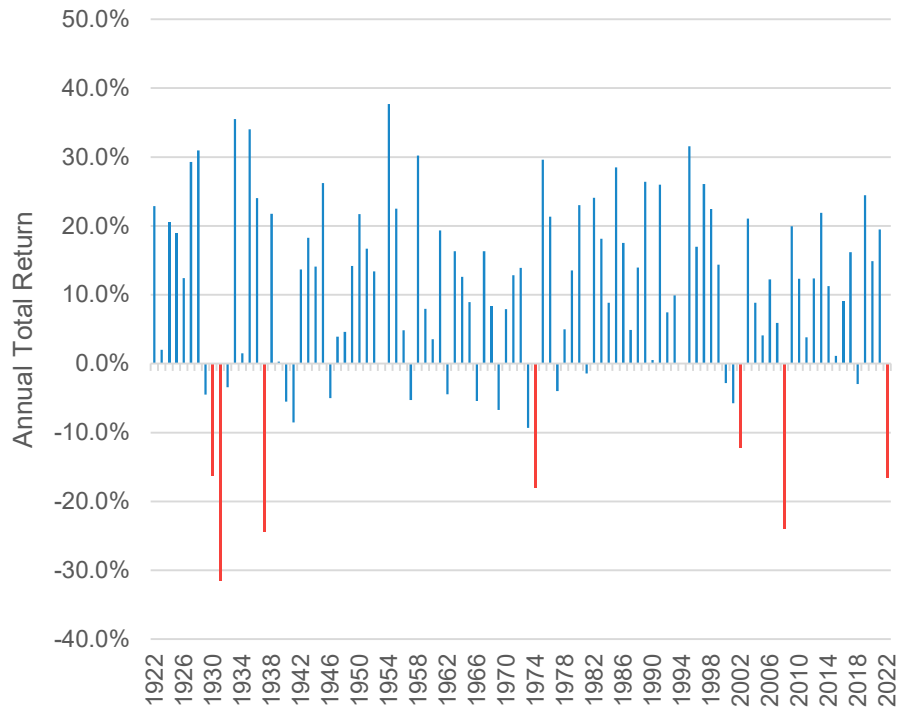
# 2022 MARKS A HISTORICALLY TOUGH YEAR FOR TRADITIONAL BALANCED PORTFOLIOS

As of December 31, 2022

A traditional 70% stocks, 30% fixed income portfolio likely suffered its worst year of performance since the 2008 great financial crisis as inflation thwarted the diversification benefits of bonds in 2022. However, we believe that higher starting yields and lower valuations improve the long-term return outlook.

## Higher interest rates hurt both bonds and stocks, marking the worst performance for balanced portfolios since 2008.

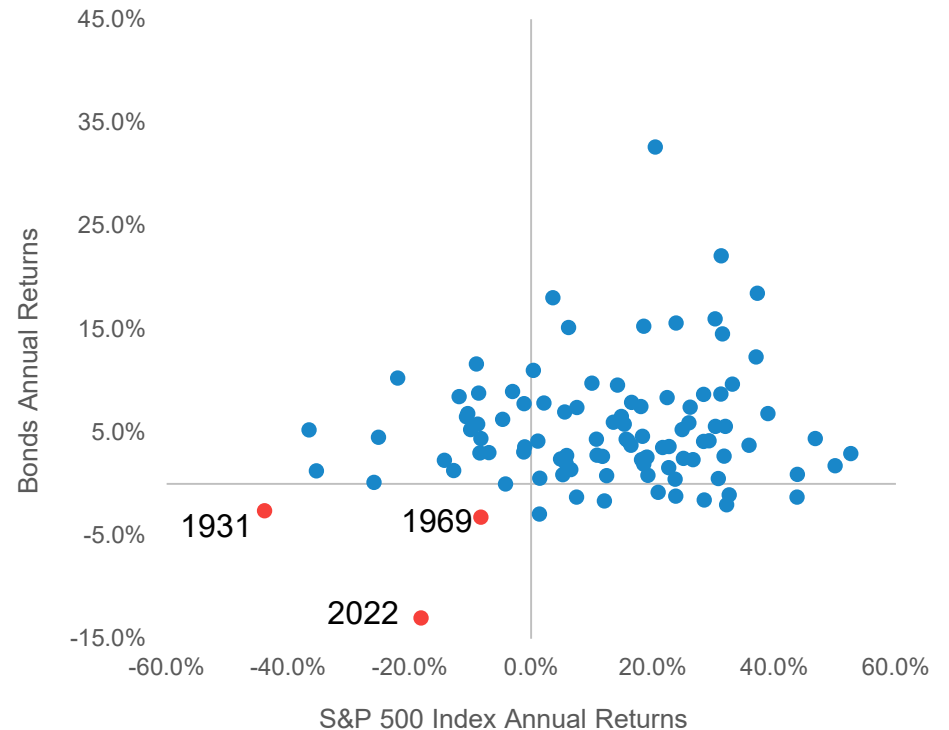
Performance of a Hypothetical 70% Equity / 30% Fixed Income Portfolio, 1922-2022



Source: Data as of 12/31/2022. Bloomberg, Bond Market Yearly Return using Bloomberg U.S. Aggregate Bond Index (1976-1982), Bloomberg Gov't/Credit Index (1973-1975), and Brown Advisory Calculations based on interest rate and credit spread data from NBER (1922-1972). Equity using yearly S&P 500 Index returns. Years highlighted in red denote drawdowns of -10% or more. Hypothetical portfolio rebalanced annually.

## Bond and stock markets rarely fall in the same calendar year, with 2022 showing historic bond drawdown.

Scatter Plot of Annual Stock & Bond Returns, 1922 – 2022



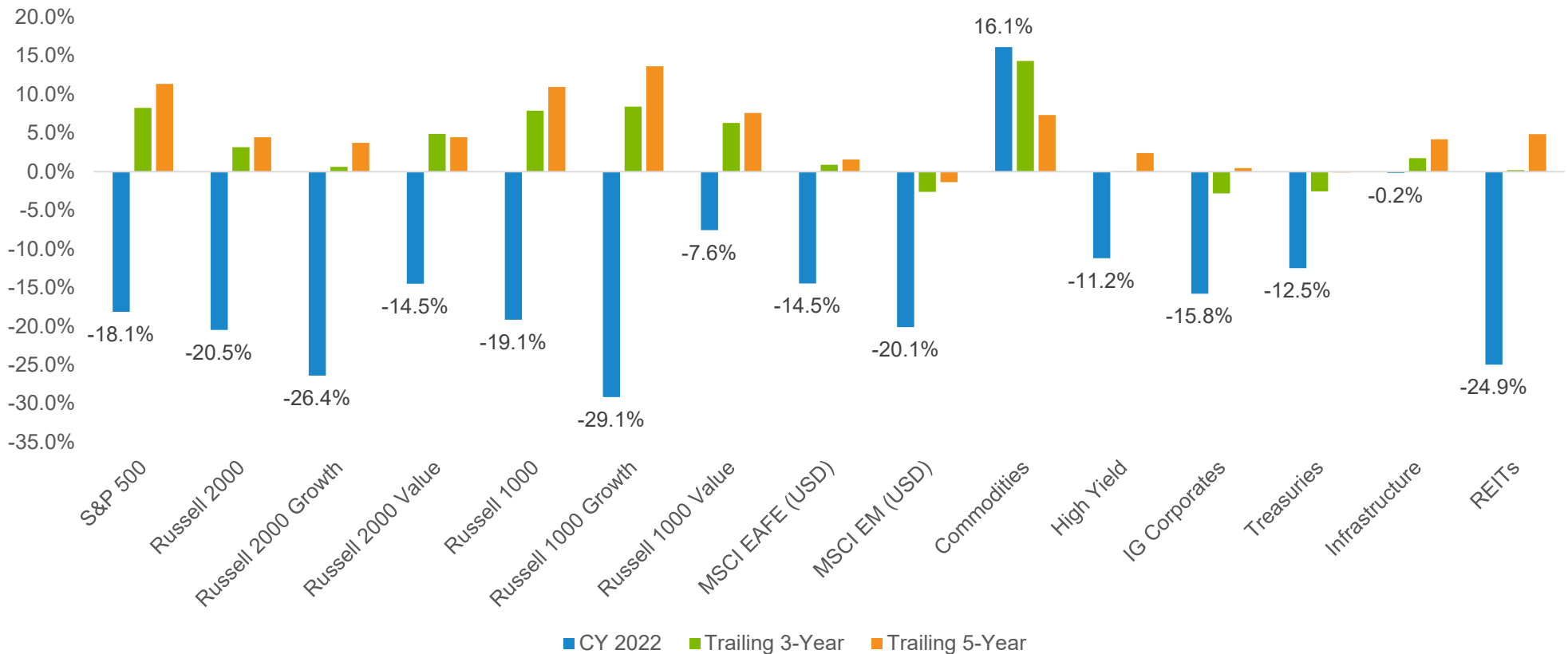
Source: Bloomberg, Bond Market Yearly Return using Bloomberg U.S. Aggregate Bond Index (1976-1982), Bloomberg Gov't/Credit Index (1973-1975), and Brown Advisory Calculations based on interest rate and credit spread data from NBER (1922-1972). Red denotes years where both stocks and bonds produced negative returns.

# RECENT SELLOFF MUST BE SEEN IN THE CONTEXT OF STRONG PRECEDING CYCLE

As of December 31, 2022

With the exception of inflation sensitive asset classes like commodities, energy and infrastructure, investors did not have many places to hide in 2022. However, when looking over longer trailing periods, many asset classes continue to show positive returns.

**Calendar Year 2022, Trailing 3-Year and Trailing 5-Year Returns across Asset Classes**



Source: Bloomberg, Annualized Returns for periods longer than one year. MSCI EAFE (USD) using MSCI EAFE Net Total Return USD, MSCI EM (USD) using MSCI Emerging Markets Net Total Return USD Index, Commodities using Bloomberg Commodities Total Return Index, High Yield using Bloomberg U.S. Corporate High Yield Total Return Index, IG Corporates using Bloomberg U.S. Corporate Total Return Index, Treasuries using Bloomberg U.S. Treasury Total Return Index, Infrastructure using S&P Global Infrastructure Index, REITs using FTSE NAREIT All Equity REITS Index.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

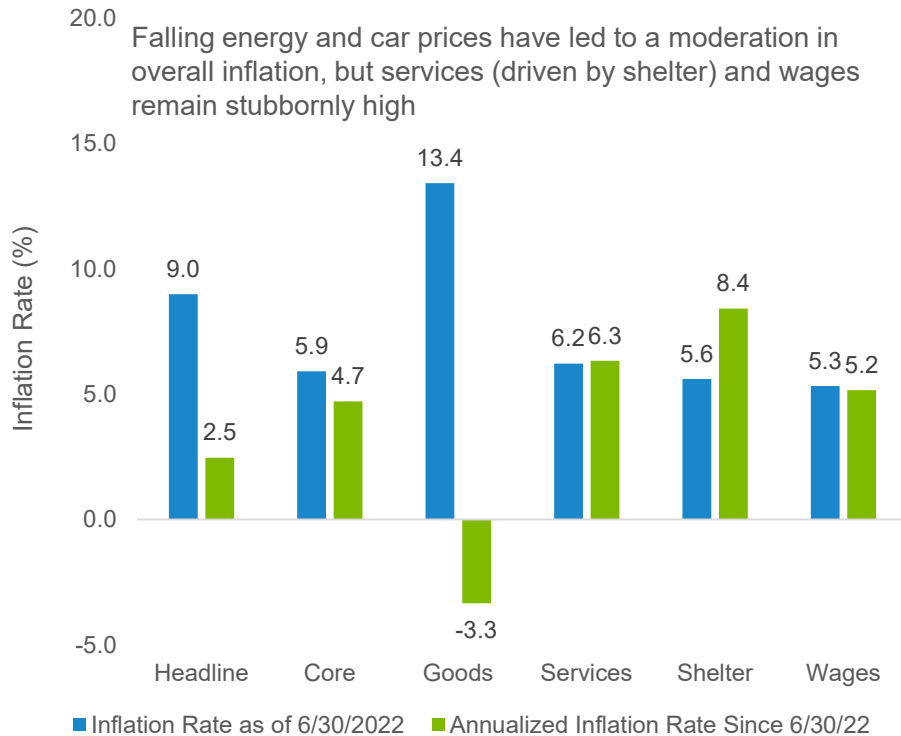
# INFLATION BEGINNING TO MODERATE BUT STILL ELEVATED

As of December 31, 2022

Recent data show nascent signs that inflation is beginning to moderate. Falling energy and car prices have led to a drop in overall goods prices, but the larger services sector is still seeing rapid inflation. Leading inflationary indicators show diverging signals with wage inflation still stubbornly elevated while inflation expectations have moderated meaningfully.

## Overall inflation has been falling driven by a fall in goods prices but services and wage inflation remain elevated.

Components of Consumer Price Index (CPI) inflation rates



Source: Bloomberg. Data as of 11/30/2022 and is the most recent data available.

## The market is expecting inflation to fall as the Fed's interest rate policy permeates the economy.

Expected Inflation Rates\*, 12/31/2021-12/31/2022



Source: Bureau of Economic Analysis (BEA), Bloomberg. \*Using Treasury Inflation Protected Securities (TIPS) Breakeven Rates

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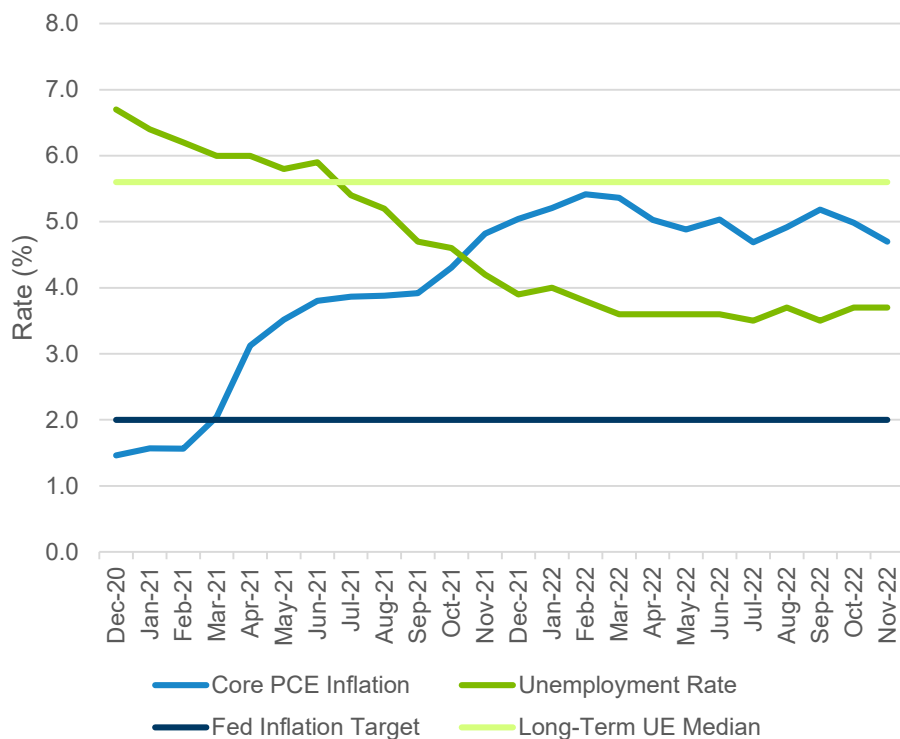
# FEDERAL RESERVE TO KEEP HIKING INTO 2023 BUT CAN THEY PIVOT IN TIME FOR A SOFT LANDING?

As of December 31, 2022

Inflation has cooled somewhat in recent months, and broad economic data have softened. However, with inflation still running above target and labor market conditions still tight, the Federal Reserve is expected to raise rates in early 2023. However, if disinflationary trends continue, a pivot in policy is likely, which we believe will be key to softening the severity of the economic slowdown and could enable a stronger recovery thereafter.

## Despite softer economic data, high inflation and low unemployment will keep the Fed hiking.

Core Personal Consumption Expenditure (PCE) Inflation versus Fed 2% target and Unemployment rate versus 70-year median, 12/31/2020-11/30/2022

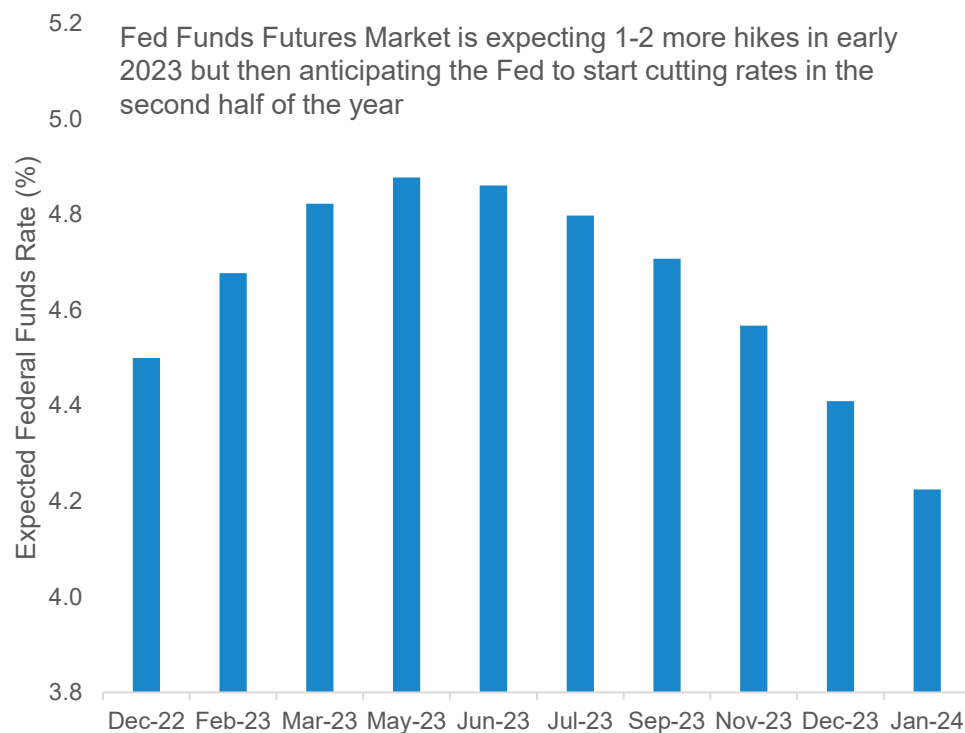


Source: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), data as of 11/30/2022 and is the most recent data available.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

## How conditions evolve will be key to if and when the Fed can pivot to support the economy.

Expected Federal Funds rates implied by Fed Funds Futures at future Federal Reserve meeting dates (12/31/2022)



Source: Bureau of Economic Analysis (BEA), Bloomberg

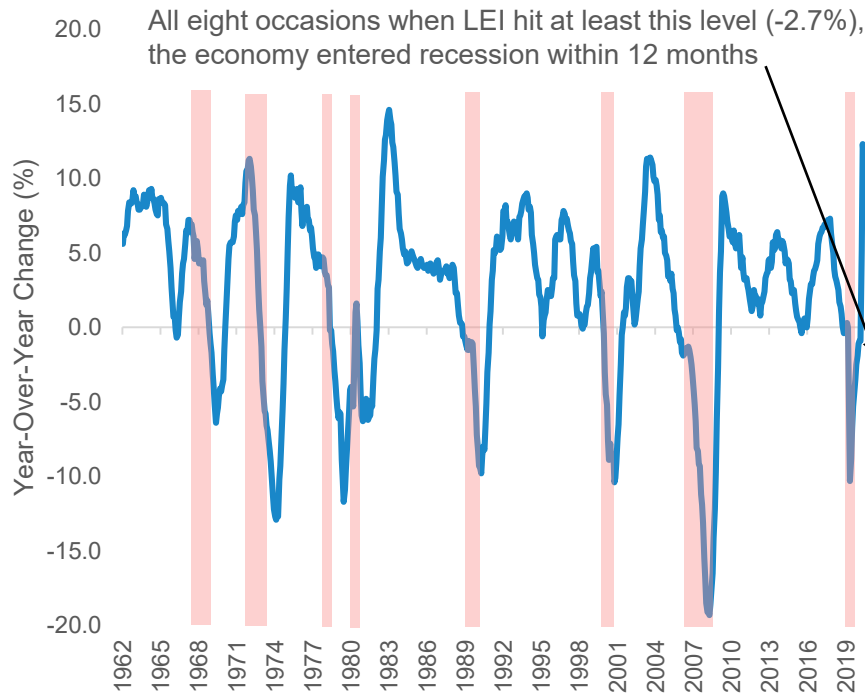
# RISING INTEREST RATES TAKING THEIR TOLL

As of December 31, 2022

Leading economic indicators are showing that the Federal Reserve’s interest rate policy is being felt across the economy and the risk of a recession is high. That being said, the current economy has fewer imbalances than conditions before the recessions in 2001 and 2008, and balance sheets in the household and corporate sector appear strong enough to mitigate the economic downturn.

## Leading Economic Indicators (LEI) have fallen sharply to a level which has historically presaged a recession...

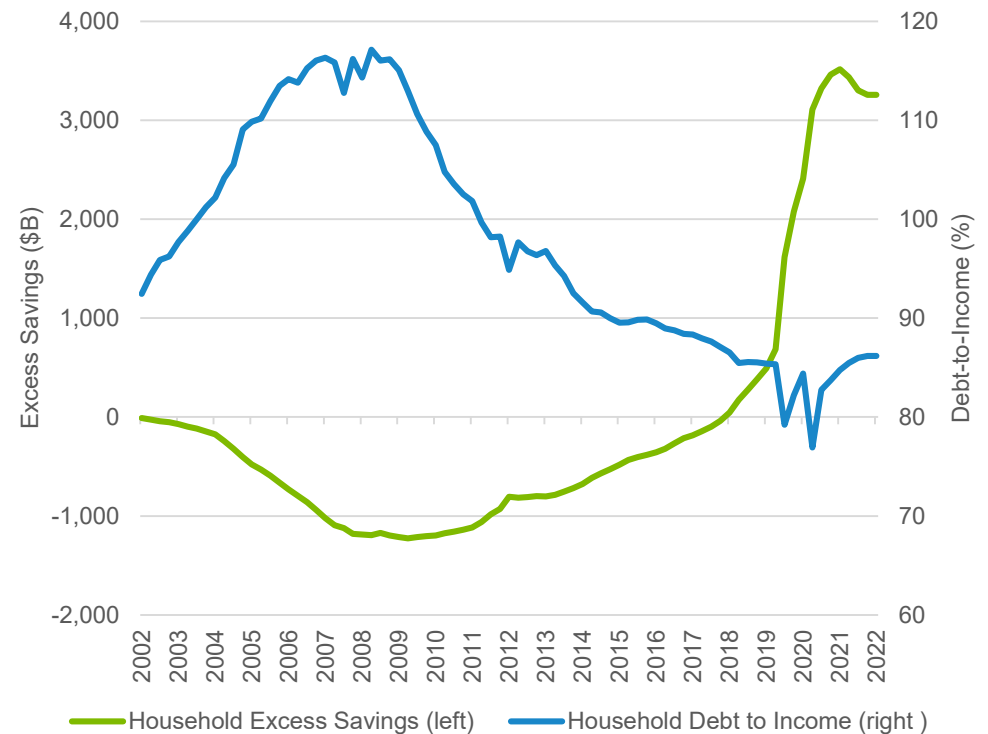
Conference Board’s Composite of LEI, YoY Growth, 12/31/1962-11/30/2022



Source: Bloomberg, data as of 11/30/2022 and is the most recent data available. Red shaded periods denote recessions as defined by the NBER.

## But the depth of a potential recession should be mitigated by relatively strong household and corporate balance sheets.

Household Excess Savings (savings relative to long-term trend savings rate) and Household Debt-to-Income, 12/31/2002-12/31/2022 (using 12/31/22 estimates)



Source: Bureau of Economic Analysis (BEA), Bloomberg

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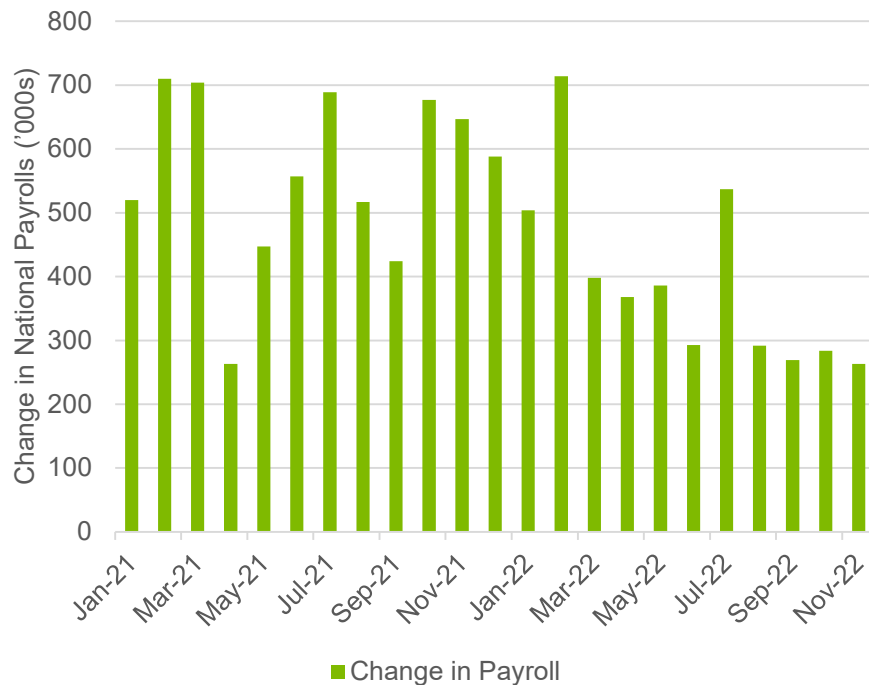
# CONSUMER SPENDING GROWING BUT INFLATION REDUCING CONFIDENCE AND REAL INCOMES

As of December 31, 2022

Job growth slowed during 2022 but has stabilized somewhat. Steady job growth, nominal wage growth, and excess savings have supported consumer spending thus far. However, the current pace of real consumer spending may be difficult to sustain in 2023 unless inflation moderates, giving wages a chance to catch up and consumer confidence a boost.

## Hiring slowed during 2022 from the torrid pace of 2021, but remains at a stable and at a healthy rate.

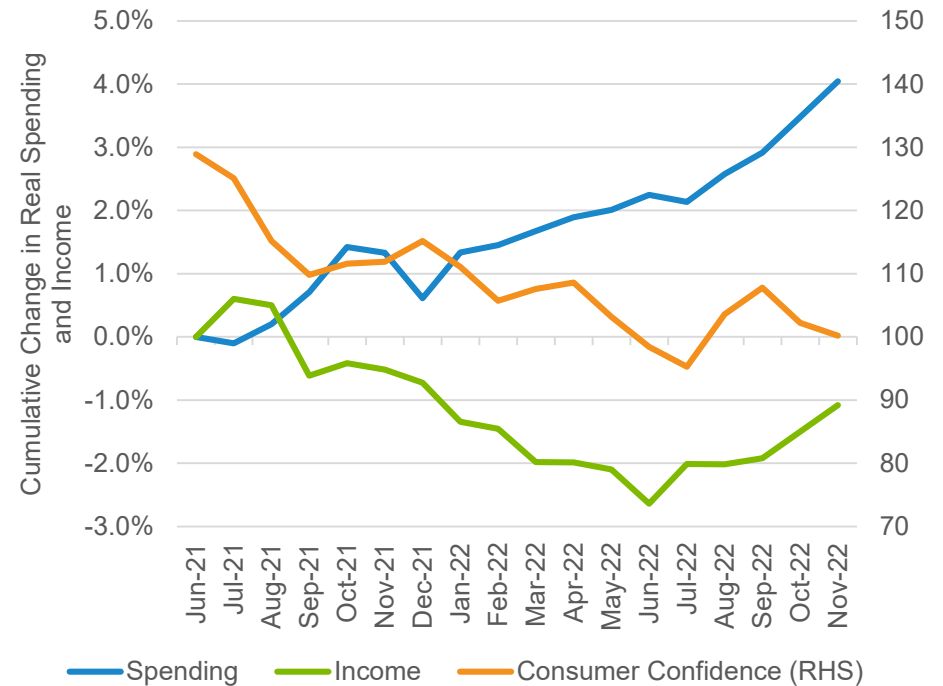
Changes in National Payrolls in thousands, 1/31/2021 – 11/30/2022



Source: Bloomberg, data as of 11/30/2022 and is the most recent data available.

## Consumer spending has been strong but with incomes failing to keep pace with inflation, the trend is unlikely to continue.

Real Personal Spending, Real Personal Income and Conference Board's Consumer Confidence, 6/30/2021 – 11/30/2022



Source: Bloomberg, data as of 11/30/2022 and is the most recent data available.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

# U.S. RECESSIONS AND EQUITY EARNINGS

As of December 31, 2022

Unsurprisingly, recessionary environments historically have had a negative impact on overall corporate profitability, but the magnitude varies depending on the depth and cause of the recession. Year-on-year earnings growth in Q4 will likely turn negative. Looking ahead, mid-single digit earnings growth in 2023 could prove overly optimistic if even a mild recession is on the horizon.

## On average, U.S. equity earnings have declined 25% during recessionary periods, but the range of outcomes is wide.

US Economic Recessions and S&P 500 Earnings Per Share (EPS) Changes

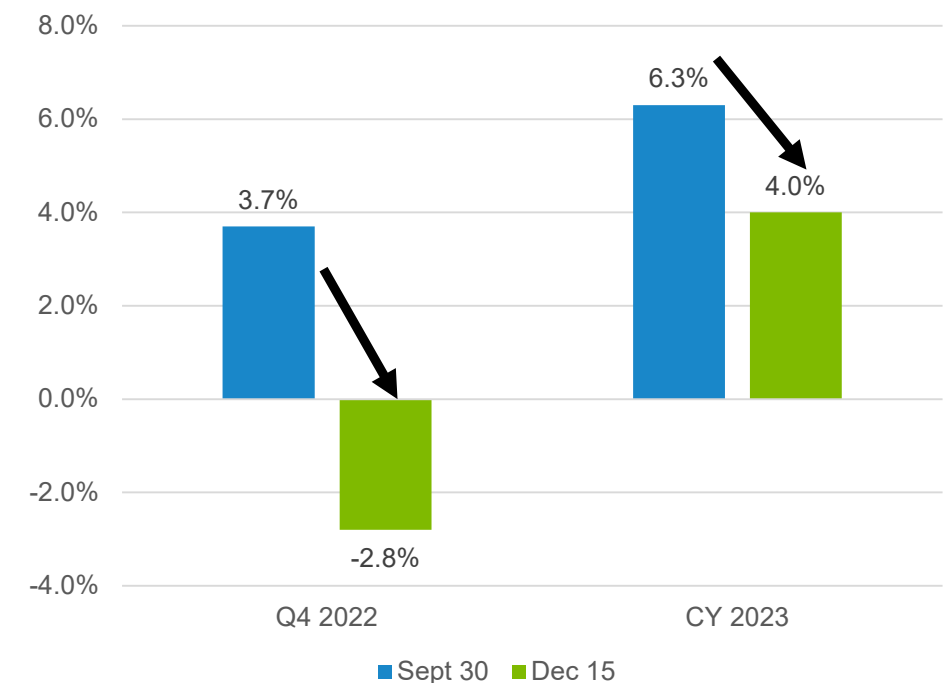
Start of Recession	End of Recession	Months in Recession	Months of S&P EPS Decline	EPS Peak to Trough Change
Aug - 1957	April - 1958	9	30	-20.3%
April - 1960	Feb - 1961	11	12	-14.7%
Dec - 1969	Nov - 1970	12	18	-18.5%
Nov - 1973	Mar - 1975	17	14	-21.6%
Jan - 1980	Jul - 1980	7	7	-7.9%
Jul - 1981	Nov - 1982	17	12	-25.8%
Jul - 1990	Mar - 1991	9	30	-39.5%
Mar - 2001	Nov - 2001	9	18	-30.5%
Dec - 2007	Jun - 2009	19	28	-50.0%
Feb - 2020	April - 2020	3	12	-20.2%
<b>Average Months</b>		<b>11</b>	<b>18</b>	
<b>Average (%)</b>				<b>-24.9%</b>

Source: Bloomberg; National Bureau of Economic Research (NBER).  
Recessions as defined by NBER. EPS – Earnings per Share based on trailing 12-month earnings per share.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

## The weakening economic outlook is beginning to show up in earnings expectations, but growth still expected in 2023.

S&P 500 Fiscal Year Estimated Earnings per Share Growth (Year-over-year)



Source: FactSet Research Systems, Inc. as of 12/15/2022 and is the most recent data available.

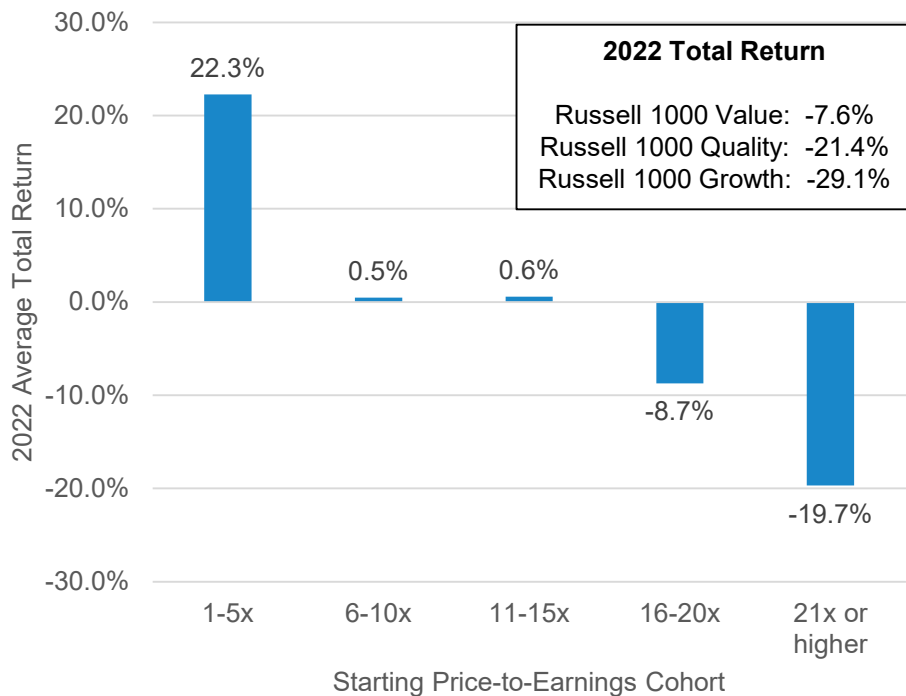
# VALUATION CAME TO THE FOREFRONT IN 2022

As of December 31, 2022

Interest rates rapidly rising from near zero caused many investors to rethink valuation and asset allocation frameworks. The most negatively affected were expensive companies with high but distant growth expectations and even high-quality consistent growers viewed by some as “bond substitutes”. With interest rates and inflation expected to remain elevated versus recent history, valuation may remain in the forefront of investors minds in 2023.

## In 2022, starting valuation was a more determinant factor of returns than other characteristics like growth and quality.

2022 Average Total Return of S&P 500 Index Members by Starting P/E Cohort

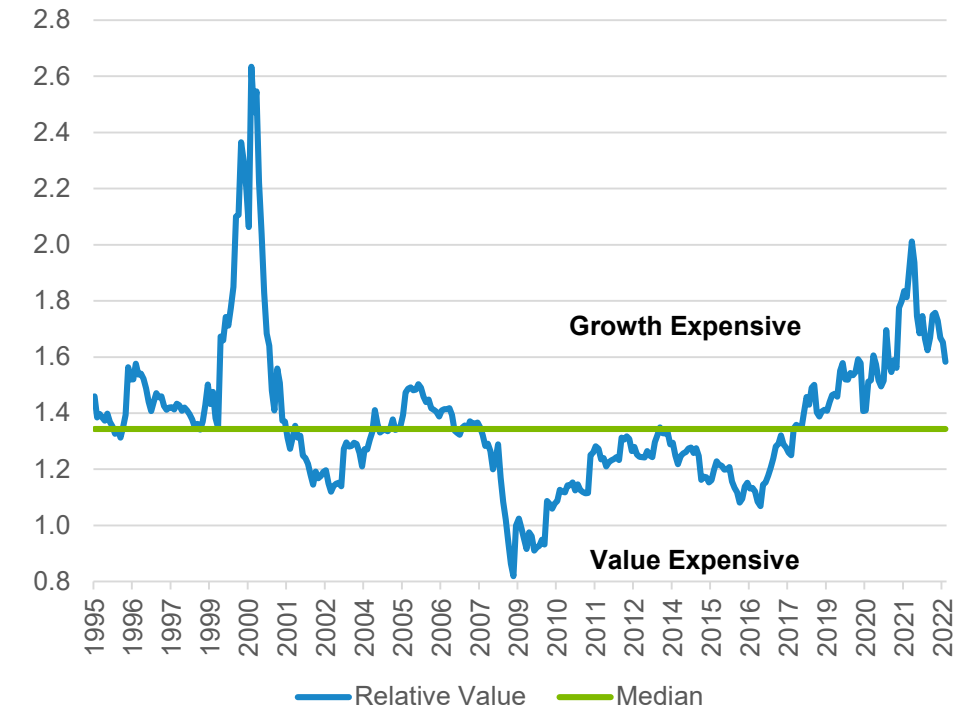


Source: Bloomberg; P/E is price relative to the average of sell-side analyst estimates as provided by Bloomberg Estimates Price/Earnings Ratio. Starting P/E as of 12/31/21. The returns of the Russell indices were not included in the 2022 average total return calculation.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

## Despite underperforming in 2022, growth equity valuations remain elevated relative to history.

Relative Valuation of Growth and Value Equities based on Price-to-Earnings



Source: Bloomberg; Growth – Russell 1000 Growth Index, Value – Russell 1000 Value Index; P/E is price relative to the average of sell-side analyst estimates as provided by Bloomberg Estimates Price/Earnings Ratio

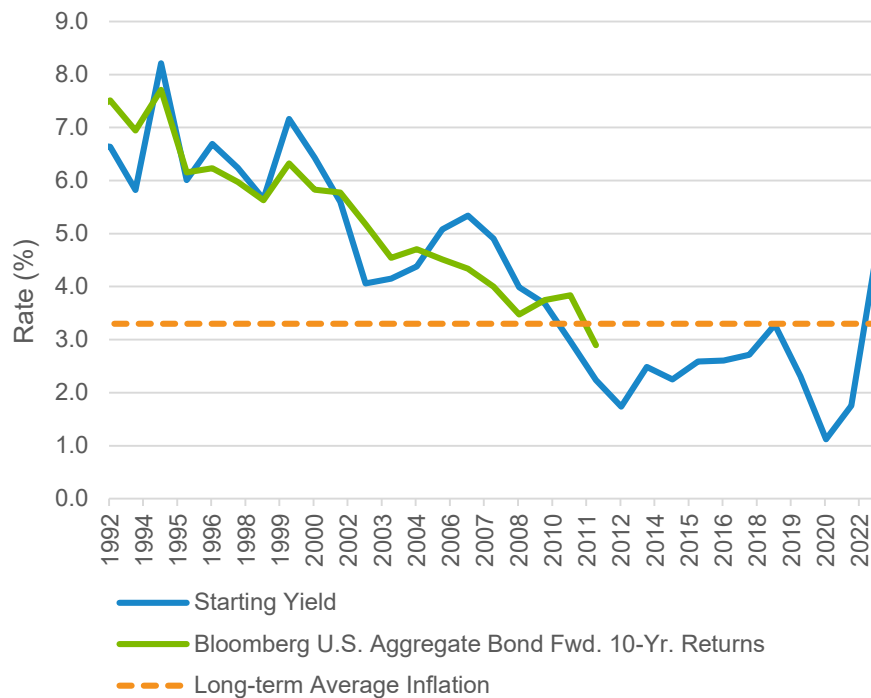
# CHALLENGING RECENT ENVIRONMENT CREATES LONG-TERM OPPORTUNITIES

As of December 31, 2022

We believe that the silver lining in the historic rout in bond markets is a more attractive long-term starting point for fixed income investors. Valuations of most segments of the global equity market have returned to historical norms. Small-cap equities stand out as being well below normal valuation levels and have lower geopolitical and macroeconomic concerns compared to non-U.S. equities.

## Starting yields are at their highest level since pre-2008 financial crisis, improving the long-term outlook for bonds.

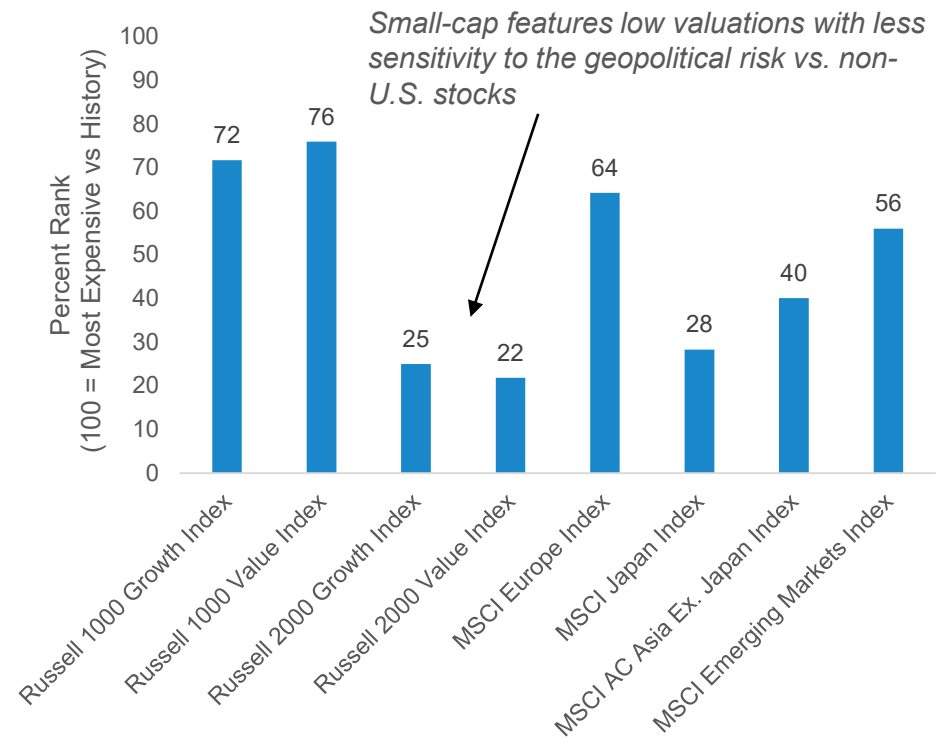
Starting yield-to-worst and forward 10-year returns for fixed income, 1976 – 2022



Source: Bloomberg, using Bloomberg U.S. Aggregate Bond Index for yield-to-worst and forward 10-Year Returns. Long-term average inflation measured using U.S. Headline CPI from 1/31/1913 – 11/30/2022 (most recent data available).

## Select segments of the equity market, such as U.S. small-caps and non-U.S. equities, are more attractively valued in our view.

Cyclically-Adjusted P/E Ratios Across Market Segments, Percent Ranks vs. History



Source: Bloomberg. Long-term history starts 1996 – 2022, current percent rank based on Cyclically-Adjusted Price Earnings as of 12/31/2022.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

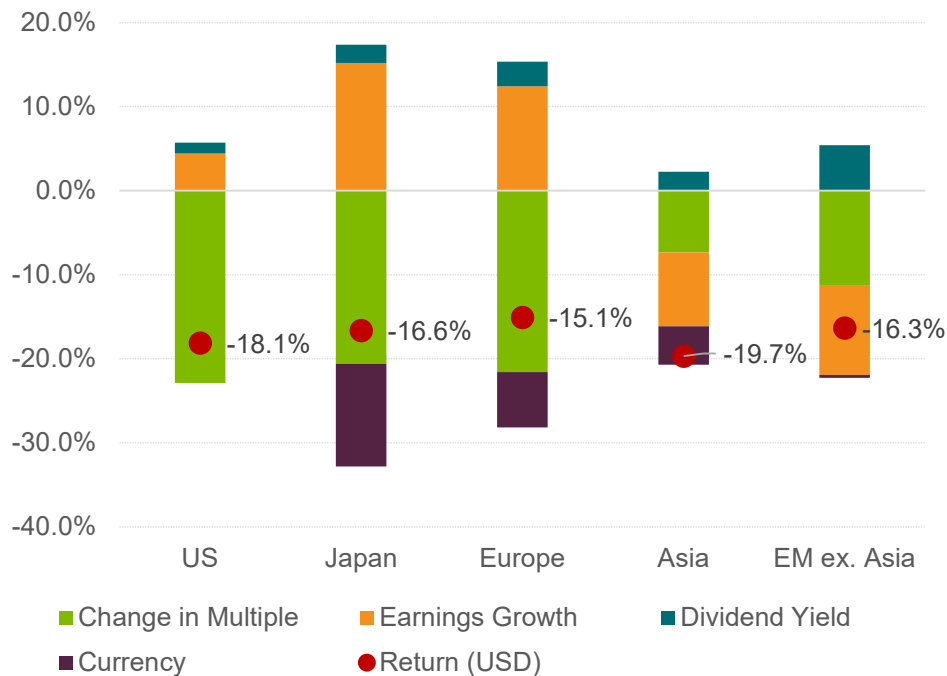
# NON-U.S. OUTLOOK – VALUATIONS ATTRACTIVE BUT RISKS REMAIN

As of December 31, 2022

Valuations in non-U.S. markets remain relatively attractive in our view, but the forward outlook for non-U.S. equities hinges on global economic prospects and the direction of the U.S. dollar. Central bank tightening may put upward pressure on the dollar, but a reversal in dollar strength could be a powerful boost for non-U.S. equities.

## Currency headwinds and multiple contraction have also plagued non-U.S. markets for USD-based investors in 2022.

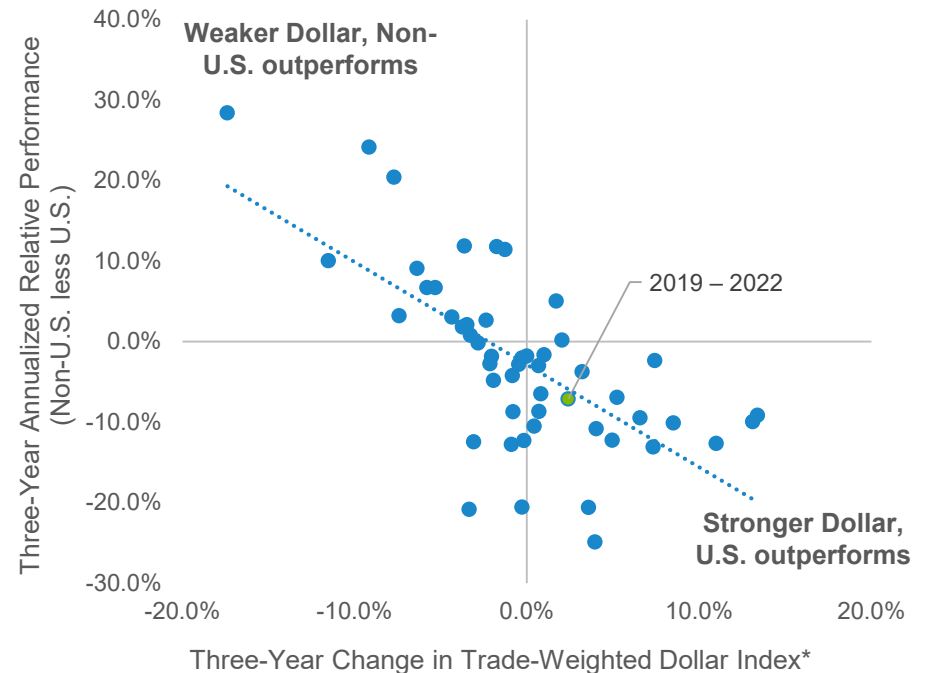
Composition of Total Returns across Various Markets as of 12/31/2022



Source: Bloomberg; US - S&P 500; Europe - MSCI Europe Gross Total Return USD; Japan - MSCI Japan Gross Total Return USD; Asia - MSCI AC Asia ex Japan Gross Total Return USD; EM ex. Asia – MSCI Emerging Markets Excluding Asia Index

## Relative performance of non-U.S. equities tends to negatively correlate with movements in the U.S. dollar.

3-Year change in USD\* vs. Relative Performance of Non-U.S. Stocks, 1969 – 2022



Source: Bloomberg. As of 12/31/2022. For U.S., using S&P 500 Index. For non-U.S. stocks, using MSCI EAFE Index from 1969 – 1987 and MSCI ACWI ex. U.S. Index from 1987 – 2022. \*Using U.S. Dollar Index Spot Rates, which averages exchange rates between USD and major currencies.

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information

# CHINA'S REOPENING EFFORTS SET UP POTENTIAL VOLATILITY FOR 2023

As of December 31, 2022

The Chinese government recently reversed many of its Zero-COVID policies in swift fashion, setting up the potential for a “reopening” rebound in 2023. China’s reopening could have important ramifications across the global economy, financial markets and public health policy, setting up a wide range of scenarios for investors in China and broader Emerging Markets.

## China’s reopening presents intriguing questions for investors heading into 2023...

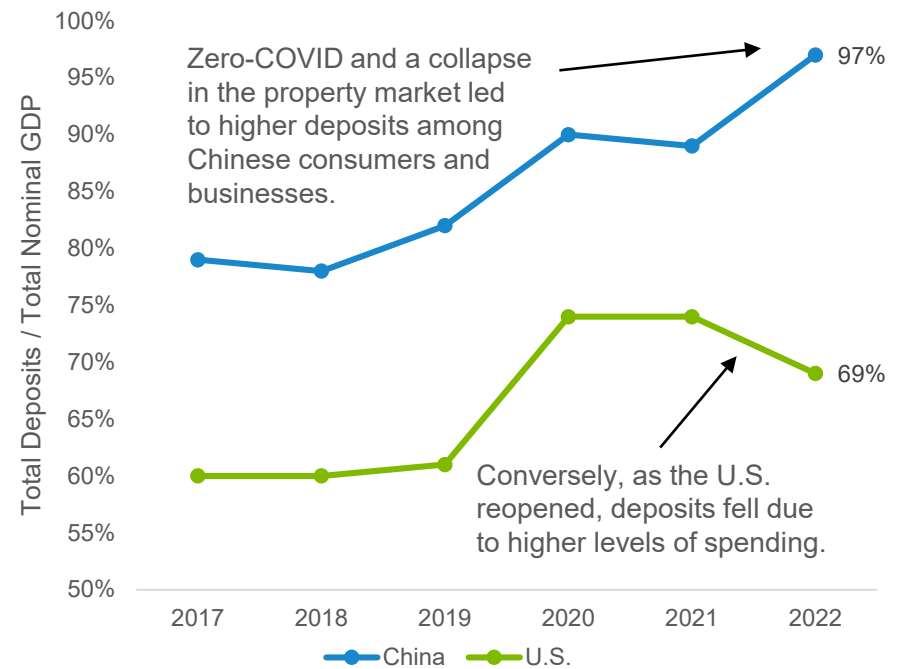
China Reopening Key Considerations for 2023

Topic	Key Questions
<b>Public Health</b>	How do the government and public health system in China handle a significant increase in COVID-19 cases, particularly as borders reopen?
<b>Global Economy</b>	How does a cyclical rebound in China impact global economic growth which has been slowing in 2022?
<b>Inflation</b>	How does higher Chinese consumption impact inflation, particularly for oil and other key commodities?
<b>Supply Chains</b>	Conversely, do supply chain constraints ease further as manufacturing output returns to normalized levels?
<b>Financial Markets</b>	Does the renminbi strengthen against the dollar as near-term economic prospects set up for a rebound in China? Will investor sentiment turn less bearish toward China?
<b>Geopolitics</b>	Does the “reopening” of China mean a return to pragmatism under the current regime? How do U.S.-China relations evolve from here?

Source: Brown Advisory Analysis

## For instance, Chinese consumers and businesses could spend down higher deposits as the country reopens in 2023.

Total Deposits as Percent of Nominal GDP, Local Currency, 12/31/2017 – 12/31/2022



Source: Bloomberg

Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information



## Income as a growing part of total return

- **Equity Income Strategies:** Cash-flow oriented dividend payers tend to be higher quality companies that grow their income to keep up with inflation while also having more defensive characteristics during volatile market environments.
- **Private Real Estate\*:** Private real estate offers attractive inflationary protection through rent growth, but higher capitalization rates may put pressure on property valuations.
- **Private Credit\*:** As spreads widen and credit risks increase, we have slowed deployment into private credit in an effort to bolster liquidity and resilience in fixed income portfolios.



## Geopolitical risks and international exposure

- **Underweight International Equities:** Asia generally features stronger long-term growth prospects and lower valuations than the U.S and similar valuations to markets with more challenging economic dynamics, like Europe.
  - China carries regulatory and political risks, but we believe that a move to “common prosperity” should bode well for ESG focused strategies.
  - European and emerging market economies may be more acutely impacted from the cost of higher energy and food prices.
- **Global Strategies:** Prefer managers that can have regional flexibility, particularly in a changing environment.



## Fed tightening and slowing economy

- **Adding Treasuries:** Given higher yields across the yield curve, we are adding Treasuries to help protect against the heightened risk of an economic slowdown as the Fed raises rates.
- **Maintaining Balance and Quality in Equities:** Higher interest rates continue to pressure hypergrowth stocks. A historical valuation gap exists between value and growth equities. We are emphasizing high-quality companies within value and small-cap.
- **Real Assets:** Diversification in the event of continued inflation, supply shocks and the potential for stagflation. For example, **infrastructure companies** typically have revenues that are contractually tied to inflation.



## Finding value and future opportunities

- **Alternatives\*:** While we expect a pricing reset across private equity in the coming months, we still see meaningful long-term value. Opportunities remain in diversifying strategies with idiosyncratic return streams (e.g. long-short).
- **High Yield & Longer-Duration Fixed Income:** As yields increase to more compelling levels (>3%), we believe that the risk/reward becomes more attractive. High yield spreads have widened somewhat and we remain on the sidelines due to heightened credit risk.
- **Innovation:** Thematic opportunities in Biotech, Fintech, Renewable Energy, Energy Transition.
  - **Energy Infrastructure** across both fossil fuels (e.g. liquified natural gases) and renewable energy sources (e.g. solar, wind) and new technologies should be instrumental to Europe’s energy independence.
  - **Biotech:** Historic drawdown and market rotation has caused sector dislocation, but the sector could benefit from long-term tailwinds (e.g. therapeutic demand).

# CURRENT POSITIONING BY MAJOR ASSET CLASS

As of December 31, 2022

We continue to emphasize quality and resilience in portfolios amidst the crosscurrents of higher inflation, tighter monetary policies and heightened risk of an economic slowdown. In equities, our preference is to invest in high-quality companies that can generate free cash flow and navigate the current environment. In fixed income, we maintain a defensive posture by remaining underweight duration and cyclical corporate credits while adding Treasuries.

Asset Class	Decision	Rationale
Public Equities	Within U.S. equities, emphasizing high-quality companies with strong pricing power in areas of the market with lower valuations.	Given heightened macroeconomic uncertainty and tighter financial conditions, we maintain our allocations in high-quality companies that we believe can navigate elevated volatility and generate meaningful cash flow to weather the storm.
	Maintain allocations in global infrastructure-related companies and U.S. small-caps	Infrastructure-related companies look attractive given their real-asset-nature benefits from inflation and economically defensive positioning. U.S. small-cap stocks are trading at relatively attractive valuations in our view. Given the space's economic sensitivity, we are biased toward quality small-cap companies.
Fixed Income	Maintaining shorter-duration posture across bond portfolios	Inflation risk creates the potential for higher interest rates but may also reduce the diversification value of longer-duration bonds. This risk is particularly acute in tax-exempt portfolios, given tight spreads in municipal bonds and we believe that shorter-duration taxable bonds can offer value.
	Limiting exposure to lower-rated credits and adding Treasury exposure in portfolios	Given the elevated uncertainty in today's environment, we believe that Treasuries offer the best defense to an economic recession and put portfolios in a position to take advantage of volatility. Additionally, the recent rise in yields means the opportunity cost of defense is low.
Private Investments*	Continuing allocation to traditional private asset classes but increasing emphasis on real assets, like established real estate	While valuations in private markets are likely to get impacted due to recent market volatility, we still see meaningful long-term value in private equity. Furthermore, we believe that private real estate offers opportunity for solid returns and inflation protection.
Hedge Funds*	Looking for opportunities to find diversifying strategies with idiosyncratic return streams	Given the coordinated impact of higher rates and inflation on both stocks and bonds, we believe that hedged strategies that can offer differentiated return streams can help add return and diversification.

Source: Brown Advisory Analysis. \*Alternative investments may be available for qualified purchasers and accredited investors only. Note: All commentary is as of 12/31/2022 unless otherwise noted. Please see the end of this presentation for important information.

# THE CASE FOR DIVERSIFICATION

As of December 31, 2022

## Calendar Year Index Returns (%)

Data through December 31, 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD 2022	Trailing 10-Year Annualized
<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); margin-right: 5px;">Best Performing</div> <div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px; margin-right: 5px;"></div> <div style="writing-mode: vertical-rl; transform: rotate(180deg); margin-right: 5px;">Worst Performing</div> </div>	U.S. Small 38.8%	U.S. Large 13.7%	U.S. Large 1.4%	U.S. Small 21.3%	Em. Mkts. 37.3%	IG Bonds 0.0%	U.S. Large 31.5%	U.S. Small 19.9%	U.S. Large 28.7%	Commodities 16.1%	U.S. Large 12.5%
	U.S. Large 32.4%	IG Bonds 6.0%	IG Bonds 0.5%	U.S. Large 12.0%	Dev. Intl. 25.0%	U.S. Large -4.4%	U.S. Small 25.5%	U.S. Large 18.4%	Commodities 27.1%	IG Bonds -13.0%	U.S. Small 9.0%
	Dev. Intl. 22.8%	U.S. Small 4.9%	Dev. Intl. -0.8%	Commodities 11.8%	U.S. Large 21.8%	U.S. Small -11.0%	Dev. Intl. 22.0%	Em. Mkts. 18.3%	U.S. Small 14.8%	Dev. Intl. -14.5%	Dev. Intl. 4.7%
	IG Bonds -2.0%	Em. Mkts. -2.2%	U.S. Small -4.4%	Em. Mkts. 11.2%	U.S. Small 14.6%	Commodities -11.2%	Em. Mkts. 18.4%	Dev. Intl. 7.8%	Dev. Intl. 11.3%	U.S. Large -18.1%	Em. Mkts. 1.4%
	Em. Mkts. -2.6%	Dev. Intl. -4.9%	Em. Mkts. -14.9%	IG Bonds 2.6%	IG Bonds 3.5%	Dev. Intl. -13.8%	IG Bonds 8.7%	IG Bonds 7.5%	IG Bonds -1.5%	Em. Mkts. -20.1%	IG Bonds 1.1%
	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Dev. Intl. 1.0%	Commodities 1.7%	Em. Mkts. -14.6%	Commodities 7.7%	Commodities -3.1%	Em. Mkts. -2.5%	U.S. Small -20.5%	Commodities -1.3%

Source: Bloomberg, LP. Indices: IG Bonds – Bloomberg Aggregate Bond Index; U.S. Large-Cap – S&P 500® Index; U.S. Small-Cap – Russell 2000® Index; Dev. Intl. – MSCI EAFE Net Total Return USD Index; Em. Mkts. – MSCI Emerging Markets Net Total Return USD Index; Commodities – Bloomberg Commodity Index Total Return (BCOMTR). Please see the end of this presentation for important information and a complete list of terms and definitions.

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## Continued

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**Terms and Definitions:**

**Price-to-Earnings Ratio** or **P/E Ratio** is a ratio for valuing a company that measures its current share price relative to its per-share earnings.

**Total return** is the actual rate of return of an investment or a pool of investments over a period. Total return includes interest, capital gains, dividends, and realized distributions. Total return is expressed as a percentage of the amount invested.

**Yield to Worst** is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

**Internal rate of return** is the discount rate at which a project's return becomes equal to its initial investment.

**Earnings per Share (EPS)** is a company's net profit divided by the number of common shares it has outstanding.