



House Bill 1554 / Senate Bill 1045

Position: Unfavorable

Brown Advisory is an independent investment management and strategic advisory firm that manages about \$170 billion for individuals, families, charities, governments, institutions, and financial intermediaries located in 51 countries and every U.S. state. Brown Advisory also manages private funds, mutual funds, and ETFs in the U.S., as well as platforms outside of the U.S. in Ireland, Bermuda, and the Cayman Islands. The firm's clients are served by nearly 1,000 employees in 14 offices across the United States, a significant office in London, and strategic bases in Abu Dhabi, Frankfurt, Singapore, and Tokyo.

Brown Advisory's global headquarters is in Baltimore. Nearly 500 of our employees live in Maryland. Every employee owns an equity stake in Brown Advisory, together owning about 70% of the firm. Legislation that harms Brown Advisory's business isn't absorbed by public company shareholders or Wall Street. The impact is directly felt by our employees.

There are several reasons why we have an unfavorable view of this bill.

Investment firms like Brown Advisory are structured to pass services and fees between affiliated business entities, investment vehicles, and clients. These structures are often required by federal and international regulatory requirements. In many cases, these entities have no employees and are not operating businesses. As services pass from entity to entity and from entity to clients, this bill would layer business-to-business taxes on services delivered to and from affiliates, creating unreasonable cost.

Furthermore, there are numerous scenarios that would cause individual investors, not business entities to absorb the 2.5% tax. For example, a business entity serves as investment manager to mutual funds. Under the bill, a 2.5% tax added to the investment management fee would flow through to mutual fund shareholders, as this service passes from business entity to business entity. The same would apply to individual investors who pool their interests in investment vehicles, ETFs, REITS, closed-end funds, and other common business entities used for investment, as well as participants in institutional retirement plans based in Maryland, which often have multiple service providers and would therefore suffer several layers of this tax.

The bill places Brown Advisory in an unfair situation versus its competitors. Investment management is a highly competitive industry, with business won or lost on fractions of pennies on the dollar. Brown Advisory is measured in part by the investment performance it achieves for clients. Additional fees and expenses detract from performance. The tax contemplated by this bill would make it more expensive for Maryland-domiciled institutional clients, mutual funds, investment vehicles, including venture capital and early-stage vehicles that fund Maryland

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businesses, and entities like trusts and family partnerships, all of which are business entities, to hire Brown Advisory.

Sophisticated institutional investors will move their transactions out of Maryland rather than add to their expenses when they consume services. Brown Advisory competitors based outside of Maryland or outside of the United States could structure around the tax proposed in this bill with relative ease, while proximity and familiarity would make enforcement against Brown Advisory easier.

It is important to convey what Brown Advisory will be forced to contemplate should this bill advance in its current form. The activities of investment management firms are mobile. Clients can be served from anywhere Brown Advisory operates, and business entities can be moved to and established in friendlier jurisdictions with relative ease.

Brown Advisory chooses to domicile business entities in Maryland, conduct business from Maryland, continues to invest in our Maryland-regulated trust company, attract employees to Maryland, and drive economic activity in Maryland because this community is important to us. However, we have a duty to our colleagues and clients to make decisions in their best interest.

If Brown Advisory is put in a situation where the firm must choose between maintaining business entities in Maryland subject to paying or charging 2.5% tax on services or domiciling elsewhere and redirecting that economic activity to take place outside of Maryland, we have a duty to our colleagues and clients to follow the path of reduced expenses. Brown Advisory would no longer recommend to our clients that they establish Maryland trusts, family partnerships, or other planning vehicles considered business entities under this bill.

Brown Advisory delivers advice to its clients, just like law firms, which notably are not subject to this bill. We request the same treatment.

Maryland has long been one of a handful of preferred jurisdictions in the United States to domicile mutual funds and closed-end funds, due to in part to the work of Maryland lawmakers long ago to adopt an accommodative legal framework, providing flexible governance, efficient corporate structuring, and strong protections for fund managers. Other states have eliminated much of Maryland's advantage over time as their lawmakers have adopted similar frameworks. Maryland's status today is largely due to inertia and trust that Maryland still values the investment management industry. This bill will signal to the industry that Maryland is ready to surrender its status and create a reason for the industry to look to states more eager to attract and retain their business.

For these reasons, Brown Advisory recommends an unfavorable report.

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