

First Quarter 2018



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Portfolio Manager

### COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P 500® INDEX
3 MOS.	-2.98	-3.12	-0.76
1 YR.	11.51	10.89	13.99
3 YR.	7.46	6.85	10.78
5 YR.	10.25	9.62	13.31
ITD (01/10/2010)	12.38	11.74	14.22

The composite performance shown above reflects the Brown Advisory Equity Income Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a division of Brown Advisory LLC, and Brown Advisory Institutional is a GIPS compliant firm. Please see the end of this for a GIPS compliant presentation.

### REP. ACCOUNT CHARACTERISTICS

	EQUITY INCOME REP. ACCT.	S&P 500 INDEX
Weighted Avg. Market Cap.	\$181.0 B	\$199.0 B
P/E Ratio (FY2 Est.)	16.0x	15.5x
Active Share	76.9%	
Dividend Yield	2.7%	1.9%
Portfolio Beta (Since Inception)	0.9	
Return on Equity (ROE)	21.2%	19.7%
Portfolio Turnover (3- Yr.Avg.)	12.2%	--

### REP ACCOUNT. TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corp.	5.4
Altria Group, Inc.	4.3
Apple, Inc.	4.0
Cash & Equivalents	3.8
Cisco Systems, Inc.	3.8
JPMorgan Chase & Co.	3.5
McDonald's Corp.	3.3
Philip Morris International, Inc.	3.2
Automatic Data Processing, Inc.	3.0
Merck & Co, Inc.	3.0
<b>TOTAL</b>	<b>37.3</b>

## Review & Outlook

It was a bumpy start of the year for U.S. stocks as a swift increase in prices in January was followed by swifter downdrafts in February and March. For the first time since the third quarter of 2015, our benchmark S&P 500® Index failed to rise and ended the quarter down slightly. The strategy performed better than the benchmark during the downdrafts but trailed during the initial January upswing. It ended the period down more than the benchmark.

The weakness in stock prices became widespread later in the quarter, and nine of the 11 benchmark sectors ended up posting losses. This was a stark contrast to last year, when nine of the 11 benchmark sectors posted full-year gains. Broad sector diversification, which was a beneficial factor to the strategy's performance last year, turned into a meaningful performance detractor in the first quarter, as the only sectors to gain ground were consumer discretionary and information technology.

The tailwinds (e.g. global economic growth and U.S. tax reform) that supported stock prices last year had less of an impact on prices in the first quarter. However, those factors continued impacting business fundamentals, like earnings and dividend growth. In particular, dividend growth was a highlight in the first quarter, as nine companies in the strategy increased their dividends by 10% or more, compared to six companies during the same period a year ago.

In terms of sectors, the consumer discretionary sector's gain during the first quarter was fueled almost entirely by large jumps in a select few non dividend-paying internet-related stocks, such as Amazon, Netflix and Booking Holdings. In contrast, four of the strategy's six holdings declined in price and detracted from performance, despite showing solid business fundamentals. For example, holdings **Best Buy**, **Home Depot** and **Hasbro** all showed confidence in their business outlooks by raising their dividends meaningfully during the quarter.

The strategy's financial holdings also detracted from overall performance during the quarter. Most notably, large financial services holding company **Wells Fargo** struggled after the Federal Reserve issued a consent order capping the company's total asset growth and mandating changes to its board of directors. The order was a further reputational setback for Wells Fargo following a series of sales-related scandals that have reduced its near-term growth outlook.

The strategy does not have any holdings in either the utilities or the telecommunication services sector, which had a favorable relative impact on performance during the quarter. The benchmark's telecommunication services sector is currently dominated by just two stocks, Verizon and AT&T. Later this year, that sector is expected to be renamed and expanded to include media companies and certain internet-related companies. The new constituents should meaningfully impact the overall dividend yield and historic defensive nature of this sector.

The strategy added two new holdings during the period, as the market's volatility created buying opportunities. **DowDuPont** is set to break into three separate companies over the next year, and each one is expected to be a market leader in its respective business. In the interim, management and organizational changes are helping to revitalize the company's revenue growth outlook and expand its margins. Elsewhere, **Broadcom** declined to an attractive entry price after it failed in its bid to acquire fellow chipmaker Qualcomm. Even without further acquisitions, Broadcom is competitively strong, and its management team is committed to returning cash to shareholders through a rising dividend.

The outlook for earnings and dividend growth from the strategy's holdings in 2018 remains bright, and the market's newfound volatility may create more opportunities to make profitable long-term investments as the year goes along. As always, the strategy remains committed to using stock price volatility to its advantage in an effort to construct the best possible portfolio of investments that offer above-average yields with a strong potential for future growth at reasonable valuations. **B**

Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

## Sector Diversification

- Our consumer discretionary weighting decreased because of a decrease in stock prices. The strategy is currently underweight the sector after having been overweight previously.
- Our information technology weighting increased during the quarter as we added Broadcom to the portfolio. Despite this addition, the strategy remains underweight to the IT sector.
- Our weighting in materials increased as we added DowDuPont to the portfolio. The strategy is currently overweight the sector after having been underweight previously.
- We have no exposure to the telecommunication services and utilities sectors because of what we consider to be unattractive valuations and limited potential for dividend growth rates in the sectors.

SECTOR	EQUITY INCOME REP. ACCOUNT (%)	S&P 500 ® INDEX (%)	DIFFERENCE (%)	EQUITY INCOME REP. ACCOUNT (%)	
	Q1 '18	Q1 '18	Q1 '18	Q4 '17	Q1 '17
Consumer Discretionary	12.23	12.61	-0.38	12.27	9.28
Consumer Staples	13.33	7.65	5.68	13.78	15.24
Energy	4.78	5.74	-0.96	5.21	5.26
Financials	16.46	14.73	1.73	17.67	17.63
Health Care	12.67	13.71	-1.04	12.61	11.59
Industrials	8.93	10.21	-1.28	9.35	12.45
Information Technology	21.50	24.93	-3.43	20.24	20.18
Materials	2.96	2.86	0.10	2.03	1.62
Real Estate	7.14	2.78	4.36	6.85	6.75
Telecommunication Services	--	1.92	-1.92	--	--
Utilities	--	2.86	-2.86	--	--

## Quarterly Attribution Detail by Sector

- The consumer discretionary sector was the biggest detractor from performance during the quarter because of unfavorable stock selection. Of the strategy's six holdings in the sector, four declined in price during the period.
- Financials also detracted from comparative performance because of unfavorable stock selection, most notably due to large price declines from holdings **Ameriprise Financial** and Wells Fargo.
- The strategy's lack of exposure to the telecommunication services and utilities sectors contributed to relative performance. The telecommunications services sector was the weakest performer within the benchmark during the first quarter.

SECTOR	EQUITY INCOME REP. ACCOUNT		S&P 500 INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	12.35	-4.12	12.54	3.19	--	-0.86	-0.86
Consumer Staples	13.30	-6.10	7.75	-7.12	-0.36	0.15	-0.21
Energy	4.94	-9.47	5.82	-5.90	0.04	-0.19	-0.15
Financials	17.28	-3.56	14.88	-0.93	--	-0.46	-0.46
Health Care	13.06	-1.02	13.87	-1.12	-0.01	-0.01	-0.01
Industrials	9.24	-6.08	10.24	-1.57	0.01	-0.44	-0.43
Information Technology	21.02	2.22	24.64	3.49	-0.12	-0.25	-0.37
Materials	2.09	-6.20	2.94	-5.52	0.04	-0.02	0.02
Real Estate	6.72	-2.93	2.68	-5.02	-0.13	0.12	--
Telecommunication Services	--	--	1.93	-7.48	0.14	--	0.14
Utilities	--	--	2.72	-3.31	0.08	--	0.08
<b>Total</b>	<b>100.00</b>	<b>-2.99</b>	<b>100.00</b>	<b>-0.74</b>	<b>-0.30</b>	<b>-1.95</b>	<b>-2.25</b>

## Quarterly Contribution to Return

- **Cisco Systems** rose after reporting quarterly earnings that featured better-than-expected revenue and earnings growth, driven primarily by strong growth for its new software and subscription-based offerings. The networking systems company also raised its dividend 14%.
- Software-maker **Microsoft** gained after reporting strong quarterly results across all of its various business segments. In particular, the company continues to see strong demand for its services that help its corporate customers shift from their legacy IT systems to new cloud-based offerings.
- Defense and aerospace company **General Dynamics** rose after reporting strong orders for the latest versions of its Gulfstream business jets. The company also raised its dividend 11% and announced the acquisition of CSRA, a provider of IT services to the federal government.
- Pharmaceutical company **AbbVie** had a volatile quarter. The stock jumped over 25% in January after the company forecasted strong 2018 earnings growth and raised its dividend 35%. We reduced our position size in AbbVie after the rapid price rise, which was timely, as the stock declined sharply in March following the release of disappointing study results for a pipeline treatment for lung cancer.
- Financial services company **JPMorgan Chase** gained after hosting an investor day where the company forecasted a strong outlook for future earnings and dividend growth due to benefits from rising interest rates, lower taxes and steady operating costs.
- Tobacco company **Altria** declined after reporting weaker-than-expected fourth-quarter volumes and lower market share for its Marlboro cigarette brand. Subsequently, Altria announced a 6% increase in its dividend as well as an increase in cigarette prices, which should support its earnings growth target for 2018.
- **Healthcare Services Group**, which provides outsourced housekeeping and dining services to nursing homes, dropped after reporting fourth-quarter margins below historical levels due to recent large client wins. We expect the firm's margins to increase over the next few quarters as the new business is fully absorbed and the company returns to a steadier rate of customer growth.
- Banking services company Wells Fargo declined after the Federal Reserve announced a consent order limiting the company's total asset growth and mandating changes to its board of directors. While the near-term earnings impact from the order will be minimal, it is a new setback as Wells Fargo tries to improve its reputation with customers and investors following a series of sales practice-related scandals.
- Global restaurant company **McDonald's** fell amid reports that the company's sales and results from a new value menu were running below expectations early in the quarter. Later in the quarter, members of the company's management team indicated at industry conferences that sales were back on track after the slow start and reaffirmed growth expectations for 2018.

EQUITY INCOME REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
CSCO	Cisco Systems, Inc.	3.79	12.82	0.41
MSFT	Microsoft Corporation	5.47	7.19	0.35
GD	General Dynamics Corporation	1.80	9.02	0.14
ABBV	AbbVie, Inc.	3.15	-1.43	0.11
JPM	JPMorgan Chase & Co.	3.64	3.36	0.10
EQUITY INCOME REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
MO	Altria Group Inc	4.62	-11.77	-0.56
HCSG	Healthcare Services Group, Inc.	2.45	-17.21	-0.45
WFC	Wells Fargo & Company	2.86	-13.10	-0.38
AMP	Ameriprise Financial, Inc.	2.97	-12.25	-0.37
MCD	McDonald's Corporation	3.53	-8.56	-0.31

## Portfolio Activity

- Chipmaker Broadcom failed in its attempted takeover of Qualcomm during the quarter. The resulting stock price weakness created an opportunity to purchase a diversified market leader with a management team that is committed to cash flow and dividend growth. To fund the initial position in Broadcom, we trimmed our existing position in Qualcomm.
- Over the next year, diversified conglomerate DowDuPont is set to break into three separate companies focused on agriculture, chemicals and specialty products. Ahead of the split, the company is benefiting from a revitalization of its revenue growth through new products and a focus on operational efficiency. Margins and cash flow are rising, supporting an outlook for sustained earnings and dividend growth beyond the split.

EQUITY INCOME REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
AVGO	Broadcom Inc	Information Technology
DWDP	DowDuPont Inc.	Materials
DELETIONS		SECTOR
	None	

# Brown Advisory Equity Income Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (\$USD Millions)	GIPS Firm Assets (\$USD Millions)
2017	21.5	20.8	21.8	8.7	9.9	49	0.3	289	33,155
2016	10.5	9.9	12.0	9.7	10.6	44	0.2	252	30,417
2015	-4.4	-5	1.4	10.1	10.5	53	0.2	331	43,746
2014	11.3	10.7	13.7	8.3	9	72	0.3	446	44,772
2013	29.2	28.5	32.4	8.6	11.9	84	0.3	450	40,739
2012	12.8	12.0	16.0	NA	NA	67	0.2	350	26,794
2011	11.6	11.0	2.1	NA	NA	43	0.2	120	19,962
2010*	6.5	6.5	10.8	NA	NA	8	N/A	22	16,859

\*Return is for period October 1, 2010 through December 31, 2010.

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, 2017. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

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 Equity Income Composite includes all discretionary portfolios invested in the equity income strategy. The strategy invests primarily in U.S. equities that exhibit above-average dividend yields, dividend growth and return on equity. The minimum account market value required for composite inclusion is \$1.5 million.
3. This composite was created in 2010.
4. The benchmark is the S&P 500® Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks that is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of dividends and do not reflect any fees or expenses. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers. Standard & Poor's, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global Inc..
5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the composite for the entire period.
6. Gross-of-fees performance returns are presented before management fees but after all trading commissions. 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 is as follows: 0.80% on the first \$10 million; 0.65% on the next \$15 million; 0.50% on the next \$25 million; and 0.40% on the balance over \$50 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the composite may differ from the current fee schedule.
7. The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The three-year annualized standard deviation is not presented as of December 31, 2010, 2011 and 2012 because 36 month returns for the composite were not available (N/A).
8. Valuations and performance returns are computed and stated in U.S. dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.
10. Past performance does not indicate future results.
11. 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.

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Composite performance is based on the Brown Advisory Equity Income Composite and was obtained through FactSet®. All information and returns shown are as of 3/31/2018 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet. This information is based on a representative Equity Income account and is provided as supplemental information. Account characteristics exclude cash and cash equivalents; top 10 holdings list includes cash and cash equivalents. FactSet® is a registered trademark of FactSet Research Systems, Inc.

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## Terms and Definitions For Representative Account Calculations

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. FactSet® is a registered trademark of FactSet Research Systems, Inc. The **Market Capitalization** refers to the aggregate value of a company's publicly-traded stock. **Weighted Average Market Capitalization** of a portfolio equals the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation). **Price-Earnings Ratio (P/E Ratio)** is the ratio of the share of a company's stock compared to its per-share earnings. P/E calculations presented use FY2 earnings estimates; FY1 estimates refer to the next unreported fiscal year, and FY2 estimates refer to the fiscal year following FY1. **Active Share** measures the percentage of holdings in a manager's portfolio that differ from those in the benchmark index. An active share of 0% means that the portfolio is identical to the benchmark, while an active share of 100% means that the portfolio has no common holdings with the benchmark. **Dividend Yield** is the ratio of a stock's projected annual dividend payment per share for the fiscal year currently in progress, divided by the stock's price. **Beta** is a measure of the volatility of a security or a portfolio of securities in comparison to a benchmark or the market as a whole. A beta less than 1 means that the security will be less volatile than the market, while a beta greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it is theoretically 20% more volatile than the market. **Portfolio Beta** is calculated by comparing the series of monthly returns of the portfolio to the monthly returns of the benchmark, for the period of time specified. **Return on equity (ROE)** is equal to a company's net income for a full fiscal year, divided by total shareholder equity. 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. The **Total Return** of an equity security is the sum of the return from price movement and the return due to dividend payments or other sources of income. The portfolio and benchmark returns provided reflect the sum of the returns of the equity holdings in the portfolio and the benchmark, respectively. The returns exclude cash. **Allocation Effect** measures the impact of the decision to allocate assets differently than those in the benchmark. **Selection and Interaction Effect** reflects the combination of selection effect and interaction effect. Selection effect measures the effect of choosing securities that may or may not outperform those of the benchmark. Interaction effect measures the effect of allocation and selection decisions (i.e., did we overweight the sectors in which we underperformed). **Total Effect** reflects the combination of Allocation, Selection and Interaction effects. Totals may not equal due to rounding. **Contribution To Return** is calculated by multiplying a security's beginning weight as a percentage of a portfolio by that security's return for the period covered in the report.