

Third Quarter 2018



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Portfolio Manager

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P 500® INDEX
3 MOS.	6.83	6.69	7.71
YTD	6.65	6.21	10.56
1 YR.	13.91	13.28	17.91
3 YR.	13.72	13.08	17.31
5 YR.	10.43	9.81	13.95
ITD (09/30/2010)	12.89	12.25	14.81

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.

Review & Outlook

U.S. stocks surged ahead in the third quarter, driven by strong underlying corporate earnings growth that was supported by robust consumer spending. The Equity Income strategy rose during the quarter but trailed its benchmark, S&P 500® Index, which posted its best single quarter of performance in nearly five years.

Rising stock prices were prevalent throughout the portfolio during the quarter. Strong consumer spending buoyed stocks in both the consumer discretionary and the consumer staples sectors. In fact, all of the strategy's holdings in those two sectors rose in price during the quarter. Likewise, all of the strategy's holdings in the information technology and health care sectors also rose in price. In the end, health care was the best performing sector in the benchmark during the quarter.

Industrials and real estate were among the few relatively weak sectors for the portfolio during the quarter. Industrial holding **Nielsen Holdings** was a particular disappointment. Coming into 2018, the expectation for Nielsen was that the portion of its business serving multinational consumer packaged goods (CPG) companies would stabilize after years of declines. It was expected that this stabilization would allow investor attention to shift toward Nielsen's content ratings business. Instead, the CPG-related business has deteriorated further this year, and the ratings business has slowed as content companies have contended with consumer privacy issues.

Due to the continued deterioration of the business' fundamentals, Nielsen was eliminated from the portfolio. No new names were added during the quarter, and no other names were eliminated.

The Global Industry Classification Standard (GICS) added a new sector during the quarter—the newly constituted communications services sector. This new sector was formed through the combination of the previous telecommunication services sector along with media companies from the consumer discretionary sector and internet-related companies from the information technology sector. In all, the new sector contains 26 individual stocks. While some of these constituent stocks currently pay dividends, far from all of them do. Most notably, stocks such as Alphabet, Facebook and Netflix do not pay dividends, but combined, they represent over half of the entirety of the new sector's weighting.

Given the Equity Income strategy's historic nature as a defensively oriented portfolio, it will be difficult to have a large weighting to the new communications services sector in the future, absent meaningful changes to the dividend policies of the largest constituent stocks.

In light of the current investment environment, marked by generally rising interest rates, the strategy continues to prefer to hold and look for stocks that offer a bright outlook for future dividend growth versus stocks that offer a high absolute yield but limited growth potential. In keeping with the dividend growth preference, several holdings increased their dividends by 10% or more during the period, including **McDonald's**, **Altria**, **Bank of America**, **JPMorgan Chase**, **Wells Fargo**, **Accenture** and **Microsoft**.

The sustainable dividend growth of these and other industry leaders should enable the portfolio to generate a growing stream of income for investors over time. In addition, a consistent focus on buying durable, defensible business models at attractive prices will remain the foundation for the strategy's aim to provide downside protection rather than full market upside participation. The evergreen, defensive nature of the portfolio will likely become more valuable during future periods of stock market weakness compared to the current period of general strength. In the current environment, we will remain patient and disciplined as we look for new investment ideas that offer above-average yields with a strong potential for future growth at reasonable valuations. **EB**

REP. ACCOUNT CHARACTERISTICS

	EQUITY INCOME REP. ACCT.	S&P 500 INDEX
Weighted Avg. Market Cap.	\$220.6 B	\$247.6 B
P/E Ratio (FY2 Est.)	16.1x	16.5x
Active Share	77.0%	--
Dividend Yield	2.6%	1.8%
Return on Equity (ROE)	21.2%	19.8%
Portfolio Turnover (3-Yr. Avg.)	11.7%	--

REP ACCOUNT. TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corp.	5.6
Cash & Equivalents	5.3
Apple, Inc.	4.9
Cisco Systems, Inc.	4.2
Altria Group, Inc.	3.8
Merck & Co, Inc.	3.6
Automatic Data Processing, Inc.	3.3
JPMorgan Chase & Co.	3.3
McDonald's Corp.	3.2
United Technologies Corp.	2.9
TOTAL	40.1

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

Sector Diversification

- The communications services sector was formed during the third quarter with components that previously resided in the telecommunication services, consumer discretionary and information technology sectors. We currently have no exposure to this new sector.
- As a result of the reclassification of certain holdings to the new communications services sector, the strategy is now overweight to both the consumer discretionary and information technology sectors.
- Our weighting in energy increased as we added to existing positions in **Kinder Morgan** and **Suncor Energy** during the quarter. The strategy is currently overweight the sector after having been underweight previously.
- We have no exposure to the utilities sector due to generally unattractive valuations and limited potential for dividend growth rates in the sector.

SECTOR	EQUITY INCOME REP. ACCOUNT (%)	S&P 500 @ INDEX (%)	DIFFERENCE (%)	EQUITY INCOME REP. ACCOUNT (%)	
	Q3 '18	Q3 '18	Q3 '18	Q2 '18	Q3 '17
Communication Services	--	10.03	-10.03	--	--
Consumer Discretionary	12.70	10.30	2.40	12.81	10.16
Consumer Staples	11.50	6.71	4.79	11.90	14.49
Energy	6.47	6.00	0.47	5.78	5.04
Financials	14.90	13.31	1.59	15.08	17.59
Health Care	13.53	15.05	-1.52	12.83	11.79
Industrials	6.64	9.70	-3.07	8.49	12.22
Information Technology	23.39	20.99	2.40	21.80	19.84
Materials	3.95	2.43	1.53	3.73	1.97
Real Estate	6.93	2.65	4.27	7.58	6.90
Utilities	--	2.83	-2.83	--	--

Quarterly Attribution Detail by Sector

- Consumer discretionary, information technology and financials were the biggest contributors to relative performance during the quarter, from a total effect perspective, because of favorable stock selection. All of the strategy's consumer discretionary and information technology holdings rose in price during the period.
- Industrials and real estate were the largest detractors from comparative performance during the period because of unfavorable stock selection. The strategy's overweight position in the real estate sector also detracted from relative performance, as the sector was among the worst performers in the benchmark during the period.
- Health care was the best performing sector within the benchmark during the period. The sector detracted slightly from the strategy's relative performance despite gains by all five health care holdings during the 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 (%)
Communication Services	--	--	10.26	1.03	0.67	--	0.67
Consumer Discretionary	12.93	11.21	10.09	9.28	0.04	0.23	0.27
Consumer Staples	11.80	4.55	6.81	5.71	-0.10	-0.13	-0.23
Energy	6.22	-1.47	6.02	0.72	-0.01	-0.13	-0.14
Financials	15.42	6.41	13.86	4.36	-0.05	0.31	0.26
Health Care	13.30	13.61	14.52	14.53	-0.08	-0.11	-0.19
Industrials	7.14	-0.74	9.66	9.98	-0.04	-0.86	-0.90
Information Technology	22.26	14.00	20.60	12.53	0.07	0.29	0.36
Materials	3.76	-0.30	2.53	0.36	-0.10	-0.02	-0.12
Real Estate	7.18	-4.31	2.75	0.80	-0.30	-0.39	-0.69
Utilities	--	--	2.89	2.38	0.15	--	0.15
Total	100.00	7.18	100.00	7.73	0.27	-0.82	-0.55

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Quarterly Contribution to Return

- iPhone maker **Apple Inc.** rose after reporting quarterly sales and earnings ahead of expectations, helped by accelerating services revenue growth. The company also unveiled new versions of the iPhone and an updated version of its Apple Watch during the quarter.
- Software maker Microsoft gained after reporting strong quarterly results across all of its various business segments amid a backdrop of higher overall corporate information technology spending. The company also announced a 10% increase to its dividend during the quarter.
- Drugmaker **Merck & Co.** rose after reporting quarterly sales and earnings ahead of expectations. The company's important Keytruda drug for treating various forms of cancer continued to gain sales momentum and market share because of positive data on its effectiveness from multiple studies.
- **Cisco Systems** gained after reporting quarterly results ahead of expectations. Revenue growth accelerated during the quarter, and growth is expected to remain healthy in future quarters thanks to strong orders for new products and increased corporate spending for the company's networking equipment.
- Payroll and business services provider **Automatic Data Processing** rose after reporting a sequential acceleration in new business bookings growth for its fiscal fourth quarter. The company also guided to an acceleration of topline growth and higher margins during its new fiscal year.
- Data measurement company Nielsen Holdings fell after reporting disappointing quarterly sales and earnings because of worsening trends in its end markets and poor execution by its management team. We exited our position in the company because of an outlook for continued poor financial performance over the next several quarters.
- Timber company **Weyerhaeuser** dropped as higher home prices, higher interest rates and reports of labor shortages dampened expectations for new home construction in the U.S. Despite the housing market headwinds, the company reported solid quarterly financial results and raised its dividend 6%. We increased our Weyerhaeuser holding slightly during the quarter amid the stock price weakness.
- **Healthcare Services Group**, which provides outsourced housekeeping and dining services to nursing homes, fell after reporting quarterly earnings that were below expectations. However, the outlook for revenue growth and margin improvement looks brighter during the second half of 2018 and into 2019.
- Suncor Energy dropped after the Canadian oil producer and refiner lowered its oil production guidance and raised its capital spending expectations for the full year. Longer term, the company's integrated business model and track record of operational execution remain attractive investment characteristics.
- Banking services company Wells Fargo declined after reporting a settlement with the U.S. Department of Justice related to its residential mortgage lending practices prior to the 2008 financial crisis. The company's growth remains weak as it contends with several outstanding legal and regulatory issues. On a positive note, the company raised its dividend 10% during the quarter.

EQUITY INCOME REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
AAPL	Apple Inc.	4.85	22.38	1.00
MSFT	Microsoft Corporation	5.72	16.43	0.89
MRK	Merck & Co., Inc.	3.65	17.67	0.61
CSCO	Cisco Systems, Inc.	4.16	13.94	0.55
ADP	Automatic Data Processing, Inc.	3.36	12.84	0.41
EQUITY INCOME REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
NLSN	Nielsen Holdings Plc	0.49	-28.52	-0.50
WY	Weyerhaeuser Company	2.71	-10.62	-0.30
HCSG	Healthcare Services Group, Inc.	2.04	-5.51	-0.12
SU	Suncor Energy Inc.	2.32	-4.25	-0.10
WFC	Wells Fargo & Company	2.69	-4.50	-0.10

Portfolio Activity

- Data measurement company Nielsen Holdings was eliminated from the portfolio after reporting disappointing quarterly results and lower financial guidance for the full year. As a result of the poor results, both the CEO and the CFO announced plans to leave the company, and the board started a formal strategic review of the business. We exited the position due in part to an outlook for deteriorating cash flow that may eventually threaten the company's high dividend.

EQUITY INCOME REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
	None	
DELETIONS		SECTOR
NLSN	Nielsen Holdings Plc	Industrials

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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.
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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 09/30/2018 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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