Flexible Equity

QUARTERLY STRATEGY UPDATE

First Quarter 2018

R. HUTCHINGS VERNON, CFA
Portfolio Manager

MANEESH BAJAJ, CFA
Portfolio Manager

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P® 500 INDEX
3 MOS.	0.53	0.44	-0.76
1 YR.	18.24	17.76	13.99
3 YR.	10.31	9.88	10.78
5 YR.	13.97	13.53	13.31
10 YR.	11.34	10.80	9.49
25 YR.	11.39	10.68	9.47
ITD (12/31/1984)	13.49	12.75	11.23

The composite performance shown above reflects the Brown Advisory Institutional Flexible Equity 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

	FLEXIBLE EQUITY REP. ACCT.	S&P 500 INDEX
Wtd. Avg. Market Cap.	$218.7 B	$199.0 B
Weighted Median Market Cap.	$100.6 B	$100.6 B
P/E Ratio (FY2 Est.)	16.5x	15.5x
Price/Book Value	3.0x	3.1x
Earnings Growth (3-5 Yr. Est.)	14.7%	12.8%
Return on Equity (ROE)	23.1%	19.7%
Portfolio Turnover (3-Yr. Average)	11.3%	--
Active Share	73.5%	

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Visa, Inc.	5.7
Berkshire Hathaway, Inc. Cl B	5.2
Alphabet. Inc. (Class A & C)*	4.8
Mastercard, Inc.	4.7
Charles Schwab Corp.	3.6
Wells Fargo & Co.	3.5
Microsoft Corp.	3.4
Booking Holdings, Inc.	3.4
JPMorgan Chase & Co.	3.3
Apple, Inc.	3.3
TOTAL	**40.9**

*Alphabet Inc. represents a 2.0% holding position in class A and 2.7% in class C shares of the stock.

Review & Outlook

The U.S. stock market was up and down in the first quarter, finishing at a slightly lower level than it began. At the high in late January, the S&P 500® Index was up 7.5% but then retreated to finish down 1.2% on a price basis and down 0.8% on a total return basis, including dividends, from where it started at the beginning of the year. Early investor enthusiasm for the tax reductions and strong corporate earnings reports gave way to concerns over rising interest rates, inflation and international trade. The Flexible Equity portfolio followed the up-then-down pattern but finished on the slightly positive side of zero in total return for the quarter. Our one-, five-, and 10-year and longer-term results compare favorably to the market's results.

Even with a slight pullback, equity prices continue to reflect a favorable environment of general economic expansion, with low interest rates and high levels of business, and investor and consumer confidence resulting in generally high valuation levels compared to history. As we noted last quarter, positive sentiment can carry prices too far for unexpected events, or any erosion in the environment, to maintain. The recent return of price declines—euphemistically called market volatility—likely reflect a slight erosion in the investment environment as well as investors shying away from equities a bit after a long run of gains. In most years, market levels will retreat by 5-10% at some point, so we don't take the recent decline as a warning of more to come, although that is always possible. But equity valuations, though helped by the recent tax changes due to the bump up in expected after-tax earnings, are high historically, and that lowers our expectations for long-term future returns. Equities are a positive-sum game over the long term, but the last five years produced 13% annualized equity market results, and we would expect the future rate over 5 to 10 years to be about half of that, call it 7% plus or minus.

Turning to what stocks to buy to beat the market, there is a lot of discussion about "value" stocks versus "growth" stocks and the indices that track them. We try to avoid this labeling in our own search for investment bargains. In matters of return, we believe both future prospects (growth, but other qualities as well) and valuation are important to the investment equation—the outlook of a business should not be separated from the price paid to obtain that outlook. In recent years, businesses that are innovating and growing quickly because they are offering something new or better have been rewarded in the marketplace in anticipation of the future profits of their innovations. Businesses that are more stable, perhaps less innovative and growing more slowly have been rewarded less or penalized if they are shrinking. There are more of the former in the growth indices and more of the latter in value indices. Consequently, "growth" has outperformed "value" in the last few years. If you look at historical patterns of growth versus value performance, you will see that both categories get their days in the sun, but it is hard to identify a regular cycle between or the reasons to anticipate, on a pure timing basis, when to favor one versus the other. You can expect that when the cycle does turn, there will be some lustrous growth companies whose highly valued stocks lose their "mojo" and some dull, lowly valued companies whose stocks regain some luster. This scenario happened in dramatic fashion in 1999–2000 and many times before. It is easy to see when looking back but not as easy looking forward.

Within the Flexible Equity strategy, we deal with the question of growth versus value by picking stocks—mostly one at a time—with an emphasis on what (in terms of future cash flows) we are getting in exchange for our money today. This means our portfolios are open to many types of investments and if a particular area offers "better opportunities than others," our portfolio will gravitate in that direction. Note, however, that better opportunity does not mean we expect the stock to move up in the next few days or weeks, but the return potential over a two- to three-year investment horizon is promising.

We added one new holding this quarter, **SBA Communications**, and eliminated another, **Hanesbrands**. We also added to some existing holdings and trimmed others, as we often do. Our reasoning for these changes is discussed in the following pages.

The Flexible Equity team searches for investment bargains among long-term, attractive businesses with shareholder-oriented managers. These businesses should have or should develop competitive advantages that result in good business economics, managers who allocate capital well, a capacity to adjust to changes in the world and an ability to grow business value over time. Bargains in these types of stocks can arise for various reasons but are often due to short-term investor perceptions, temporary business challenges that will improve, company or industry changes for the better, or as-yet-unrecognized potential for long-term growth and development. Despite the occasional investment that will go awry, we are optimistic about the long-term outlook for equities of good businesses purchased at reasonable prices and our ability to find them.

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

Sector Diversification

- We base our investment approach on individual company selection and incorporate a reasonable balance of sector exposures as part of risk management. Companies in the same economic sectors can vary as greatly in their business economics and profiles as companies in completely different sectors.
- Our consumer discretionary weighting decreased due to our trim of **TJX Companies** and the elimination of Hanesbrands. We added to **CarMax** and **Lowe's Companies**.
- We added to **Suncor Energy**, modestly increasing our energy weighting.
- Our financials weighting decreased as a result of the sector's slightly negative return.
- The health care weighting increased with additions to **UnitedHealth Group** and the stock price appreciation of **Edwards Lifesciences**.
- We trimmed **Canadian National Railway**, decreasing the industrials weighting.
- In real estate, we trimmed **Crown Castle International**, reinvesting proceeds into new holding SBA Communications, which increased our real estate sector weighting.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	FLEXIBLE EQUITY REP. ACCOUNT (%)	
	Q1 '18	Q1 '18	Q1 '18	Q4'17	Q1 '17
Consumer Discretionary	13.82	12.61	1.21	14.20	19.37
Consumer Staples	3.86	7.65	-3.79	3.93	1.39
Energy	4.65	5.74	-1.09	4.46	4.63
Financials	27.49	14.73	12.76	28.12	26.54
Health Care	8.61	13.71	-5.10	8.00	10.20
Industrials	7.15	10.21	-3.06	7.45	6.76
Information Technology	32.13	24.93	7.20	32.06	29.31
Materials	--	2.86	-2.86	--	--
Real Estate	2.29	2.78	-0.49	1.78	1.81
Telecommunication Services	--	1.92	-1.92	--	--
Utilities	--	2.86	-2.86	--	--

Quarterly Attribution Detail by Sector

- Attribution is a tool that calculates the effect of sector allocation and stock selection relative to market and sector benchmarks of performance. This tool does not reflect how we manage investments and we believe it has significant limitations, but it is frequently requested, and we share it for that reason.
- The portfolio increased slightly in value versus the decline in the S&P 500 Index.
- Health care was the strongest contributor due to our higher return. Relative to the Index, consumer staples was the second-best contributor, as the sector in the portfolio had a lower weighting and declined less than the Index.
- The energy sector was the biggest detractor to results, with a larger decline relative to the Index.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT		S&P 500 INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	13.90	2.59	12.54	3.19	0.09	-0.09	--
Consumer Staples	3.78	-5.61	7.75	-7.12	0.27	0.05	0.32
Energy	4.67	-10.83	5.82	-5.90	0.05	-0.23	-0.19
Financials	28.00	-0.89	14.88	-0.93	-0.01	0.03	0.01
Health Care	8.36	5.19	13.87	-1.12	0.02	0.48	0.50
Industrials	7.07	-1.08	10.24	-1.57	0.03	0.02	0.05
Information Technology	32.31	2.44	24.64	3.49	0.36	-0.34	0.01
Materials	--	--	2.94	-5.52	0.14	--	0.14
Real Estate	1.92	-0.57	2.68	-5.02	0.08	0.07	0.15
Telecommunication Services	--	--	1.93	-7.48	0.14	--	0.14
Utilities	--	--	2.72	-3.31	0.08	--	0.08
Total	**100.00**	**0.48**	**100.00**	**-0.74**	**1.24**	**-0.02**	**1.22**

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Quarterly Contribution to Return

- **Mastercard** and **Visa** both posted strong earnings results and are well-positioned for growth and profitability, in our view.
- Edwards Lifesciences continues to benefit from market expectations for its new product, Sapien 3 Ultra. The company remains a leader in the transcatheter aortic valve replacement market.
- **Booking Holdings** changed its name from Priceline to align the company name with its primary business and internationally recognized website, Booking.com. We are encouraged that the company continues to execute and show consistent growth in nights booked and that its business performance gap is widening relative to its closest competitors.
- **Microsoft** exceeded investors' expectations for its second quarter results which indicated stability in their legacy businesses and growth in its newer businesses, such as Azure, its cloud service. The outlook for enterprise technology spending is favorable.
- **Wells Fargo's** stock price continues to be negatively impacted by the disclosure in September 2016 of problems with its internal incentive systems. The Federal Reserve Bank, its primary regulator, imposed a restriction on balance sheet growth until the issues are fully resolved to the regulators' satisfaction. We believe Wells is working hard to resolve these issues fully, and when that occurs, business performance will improve and a premium valuation will return.
- **Ameriprise Financial's** stock price increased meaningfully in 2017 but fell this year with the heightened volatility in the equity markets.
- **Kinder Morgan's** share price was impacted by investors' fears that Federal Energy Regulation Commission (FERC) policy changes for master limited partnerships (MLPs) could result in lower tariffs, revenue and earnings for the company. Since Kinder Morgan is no longer an MLP, it is unlikely that the company will be affected by these changes.
- **Facebook** is suffering from the public backlash related to the disclosure that Cambridge Analytica contracted third-party Facebook applications to pull data about its users, potentially impacting 87 million users. While there has been a call for users to drop the social media platform, the largest concern stems from potential regulatory changes. We continue to monitor the situation and look to update our thinking as new information presents itself.
- The proposed takeover of **Qualcomm** by Broadcom was prohibited by the U.S. government, causing the stock price to fall. While we were supportive of a management change at Qualcomm, we agree with the management's current position that Qualcomm's technology holds a great deal of unrealized earnings potential.

FLEXIBLE EQUITY REP. ACCOUNT TOP FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MA	Mastercard Incorporated Class A	4.56	15.91	0.63
EW	Edwards Lifesciences Corporation	2.85	23.79	0.56
BKNG	Booking Holdings Inc.	3.17	19.72	0.53
V	Visa Inc. Class A	5.78	5.09	0.27
MSFT	Microsoft Corporation	3.41	7.19	0.23

FLEXIBLE EQUITY REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
WFC	Wells Fargo & Company	3.89	-13.10	-0.50
AMP	Ameriprise Financial, Inc.	2.81	-12.25	-0.35
KMI	Kinder Morgan Inc Class P	1.93	-16.09	-0.30
FB	Facebook, Inc. Class A	2.88	-9.45	-0.26
QCOM	Qualcomm Incorporated	1.58	-12.71	-0.19

Portfolio Activity

- We added one new holding to the portfolio, SBA Communications (SBAC), and eliminated Hanesbrands, Inc.
- SBAC, a wireless communications tower company, is well-positioned to benefit from wireless technology's secular growth. Management's focus on both organic growth and tower acquisitions, as well as their use of free cash flow for share repurchase, should drive the company's share price higher. The company is poised to benefit from an eventual increase in carrier spending during the next upgrade cycle. SBAC's founder is still involved in the company and many seem to think he may ultimately realize value for shareholders through a sale of SBAC.
- Despite its low valuation, we sold Hanesbrands, as its apparel business has proven to be more challenging than our original assessment.

FLEXIBLE EQUITY REP. ACCOUNT PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
SBAC	SBA Communications Corp. Class A	Real Estate
DELETIONS		**SECTOR**
HBI	Hanesbrands Inc.	Consumer Discretionary

Brown Advisory Institutional Flexible Equity 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	25.1	24.6	21.8	11.4	9.9	50	0.3	2,912	33,155
2016	9.9	9.5	12.0	12.1	10.6	52	0.2	2,883	30,417
2015	-2.0	-2.4	1.4	11.1	10.5	56	0.2	2,686	43,746
2014	14.0	13.5	13.7	9.2	9.0	49	0.2	3,195	44,772
2013	37.5	36.9	32.4	11.9	11.9	44	0.4	2,247	40,739
2012	19.9	19.5	16.0	14.6	15.1	40	0.3	1,818	26,794
2011	5.8	5.4	2.1	18.5	18.7	43	1.1	1,714	19,962
2010	11.1	10.3	15.1	22.7	21.9	45	0.7	1,811	16,859
2009	37.1	36.0	26.5	21.3	19.6	48	3.4	1,905	11,058
2008	-36.5	-37.0	-37.0	16.6	15.1	51	1.9	1,541	8,547

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, 2016. 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 Institutional Flexible Equity Composite includes all actual, discretionary, institutional accounts with a flexible value equity objective of 100%. The strategy seeks bargains in "value" as well as "growth" stocks and invests primarily in the common stock of domestic companies with market capitalizations greater than $2 billion at the time of purchase. As of January 1, 2013, the minimum account market value required for composite inclusion is $1.5 million. Prior to August 2013 the name of this composite was Institutional Flexible Value. The strategy remains the same.
3. This composite was created in 1985.
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. From January 2007, through December 2008, dispersion is calculated using the asset-weighted standard deviation of the annual gross returns of those accounts included in the composite for the full year.
6. Between October 2006 and December 2008, a significant cash flow policy was adopted for this composite. A significant cash flow is defined as a single flow of cash or securities of more than 25% of the portfolio's market value at prior month end. Accounts with significant cash flows are excluded from the composite for a grace period, defined as the month during which the flow occurred. Additional information regarding significant cash flow policies are available upon request.
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. Prior to 2011, net performance is based on a model fee using the highest fee in effect, 0.75% applied quarterly. The Actual fees may vary, depending on, among other things, the applicable fee schedule and portfolio size. The fee schedule is as follows: 0.60% on the first $25 million; 0.50% on the next $25 million; 0.45% on the next $50 million; and 0.40% on the balance over $100 million. For periods after 2011 actual fees are used to calculate net returns. 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.
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, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
11. Past performance does not indicate future results.
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Composite performance is based on the Brown Advisory Institutional Flexible Equity 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 Institutional Flexible Equity 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.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. Total portfolio return figures provided reflect the sum of the returns of the equity holdings in the representative account portfolio due to price movements and dividend payments or other sources of income, and exclude cash. Performance figures may vary from actual portfolio performance, as calculations are based on end-of-day security prices and do not incorporate the actual cost basis or sale price of individual securities. #Contribution to return is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return for the reporting period. The portfolio information provided is based on a representative Institutional Flexible Equity account and is provided as supplemental information. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. The security returns listed represent the period of when the security was held during the quarter. Top five and bottom five contributors exclude cash and cash equivalents. Sector diversification and attribution excludes cash and cash equivalents. Sectors are based on the Global Industry Classification Standard (GICS) classification system. GICS® is a registered trademark of MSCI and Standard & Poor's Financial Services LLC. The individual amounts shown for top ten holdings, sector diversification and quarterly attribution may not sum to the total amount shown due to rounding. Please see composite disclosure statements above for additional information.

Terms and Definitions for Representative Account Calculations

Weighted Median: the value at which half the portfolio's market capitalization weight falls above and half falls below**. 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. **Price to Book Value** is a valuation ratio expressing the price of a security compared to its hard, or tangible, book value as reported in the company's balance sheet. The tangible book value number is equal to the company's total book value less the value of any intangible assets. Intangible assets can be such items as patents, intellectual property, goodwill etc. **Earnings Growth 3-5 Year Estimate** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokers, calculated according to each broker's methodology. All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average. **ROE, or Return on Equity**, is equal to a company's net income for a full fiscal year, divided by total shareholder equity. **Portfolio Turnover (3 yr. avg.)** is the ratio of the lesser of the portfolio's aggregate purchases or sales during a given period, divided by the average value of the portfolio during that period, calculated on a monthly basis. **Active share** is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two. 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. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period. **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.