Flexible Equity

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

Third Quarter 2018

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COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P® 500 INDEX
3 MOS.	6.95	6.85	7.71
YTD	13.46	13.15	10.56
1 YR.	21.91	21.44	17.91
3 YR.	17.69	17.24	17.31
5 YR.	14.17	13.73	13.95
10 YR.	13.37	12.84	11.97
25 YR.	11.51	10.81	9.81
ITD (12/31/1984)	13.69	12.95	11.41

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.	$266.2 B	$247.6 B
Weighted Median Market Cap.	$111.9 B	$113.8 B
P/E Ratio (FY2 Est.)	17.4x	16.5x
Price/Book Value	3.3x	3.4x
Earnings Growth (3-5 Yr. Est.)	15.7%	13.6%
Return on Equity (ROE)	24.0%	19.8%
Portfolio Turnover (3-Yr. Average)	12.5%	--
Active Share	72.5%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Visa, Inc.	6.1
Mastercard, Inc.	5.0
Berkshire Hathaway, Inc. Cl B	4.9
Alphabet. Inc. (Class A & C)*	4.9
Apple, Inc.	3.9
Microsoft Corp.	3.8
Lowe's Companies, Inc.	3.6
Edwards Lifesciences Corp.	3.4
CarMax, Inc.	3.3
Facebook, Inc.	3.3
TOTAL	**42.2**

*Alphabet Inc. represents a 2.1% holding position in class A and 2.8% in class C shares of the stock.

Review & Outlook

The U.S. stock market rose strongly in the third quarter with the S&P 500® Index returning 7.7%. Flexible Equity portfolios rose in the quarter but did not quite keep up with the robust gain of its benchmark, the S&P 500 Index. With the U.S. market hitting new highs in September, equity market participants generally should have had a good experience from any starting point or across any time period. This is not to say the markets never disappoint investors on a short-term basis, but persistence over longer periods has typically been rewarded. Similarly, we believe that investors in the Flexible Equity strategy have been rewarded for their persistence by both the rising tide of U.S. equity markets and a tendency, though obviously not a certainty, of our selections to add value to the Index result over time. Over time, but not every time is the message here.

In recent years and continuing strongly throughout this year, stocks of companies with strong growth characteristics often called "growth" stocks have outperformed the stocks of companies with less strong growth characteristics, often called "value" stocks. "Growth" stocks tend to trade at premiums to "value" stocks. We put "growth" and "value" in quotes because the stocks themselves do not innately and immutably possess these traits. Rather, investors assign these labels to companies based on recent results and expectations for the future, or in the case of style-based indices, largely by sorting the highest valuation stocks into the growth category and the lowest into the value category. In reasonably efficient markets, neither type of investment can be expected to permanently outperform the other, despite periodic runs favoring one or the other.

Flexible Equity portfolios contain both "growth" and "value" stocks as the market labels them, but we have neither a value nor a growth style of investing. When we add a new name to our portfolio, we always want to get a lot for our money, so you should think of us as having a value philosophy. However, we recognize that companies that can grow their sales and earnings while generating a strong return on invested capital offer more favorable prospects to investors than those that cannot, so you should think of us as having a growth philosophy as well. We distinguish philosophy from style in both cases. In practice, once purchased and part of the portfolio, we hold more tightly over time to companies that are growing nicely and persistently than to those that are not.

You will notice the presentation in our portfolio reports has changed to reflect the Global Industry Classification Standard's (GICS) changes in the classifications of companies across economic sectors—enlarging the communications sector. GICS was developed by MSCI and Standard and Poor's in the 1990s to provide the financial community with a reliable, complete and standard approach to classifying stocks—this change represents its latest evolution. Portfolio holdings **Alphabet** and **Facebook** moved from the information technology sector and Walt Disney from consumer discretionary sector into the new communications services sector. The reclassifications do not affect our views on the companies, how we manage or what we hold in the portfolio, but we believe this change is an improvement in its methodology. This change also makes the balance in our portfolio more apparent. For example, we now appear less overweight in the technology sector since two of our larger holdings moved to the communications services sector, but again, we did not change our holdings. We think about balance in terms of the aggregation of company business characteristics rather than economic sectors and relative sector weightings. We prefer balance over the larger skewing you see in style-driven (value versus growth) portfolios. As usual, there were some changes in the portfolio holdings at the margin, but nothing that changes the character of the portfolio. These specific changes are discussed in the subsequent pages.

The Flexible Equity team searches for investment bargains among long-term attractive businesses with shareholder-oriented managers—those with productive assets and productive managers. These businesses should have or should develop competitive advantages that result in good business economics, managers who allocate capital well, capacity to adjust to changes in the world and the 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 should 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 and stretches when the general stock market is unrewarding, 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.
- Standard & Poor's changed its GICS sector composition, creating a new "communication services" sector, which affected some companies in the consumer discretionary and information technology sectors. This has no effect on how we select portfolio holdings.
- The communication services sector includes portfolio holdings Alphabet, Facebook and **Walt Disney**. We added to Facebook in the quarter.
- We eliminated **Chipotle Mexican Grill** and trimmed **eBay** in the consumer discretionary sector in favor of adding to other portfolio investments.
- We added **KKR & Co.** and tendered shares of **Altaba** in the financials sector.
- We purchased a new holding, **Taiwan Semiconductor Manufacturing**, in the information technology sector.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	FLEXIBLE EQUITY REP. ACCOUNT (%)	
	Q3 '18	Q3 '18	Q3 '18	Q2 '18	Q3 '17
Communication Services	10.03	10.03	--	9.77	9.93
Consumer Discretionary	12.60	10.30	2.30	13.74	16.70
Consumer Staples	4.06	6.71	-2.65	3.93	2.43
Energy	5.27	6.00	-0.73	5.36	3.91
Financials	24.80	13.31	11.49	25.65	27.42
Health Care	9.03	15.05	-6.02	9.13	8.17
Industrials	6.42	9.70	-3.29	6.46	7.18
Information Technology	25.54	20.99	4.54	23.54	22.51
Materials	--	2.43	-2.43	--	--
Real Estate	2.26	2.65	-0.40	2.44	1.75
Utilities	--	2.83	-2.83	--	--

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, so we share it for that reason.
- The portfolio's return increased during the quarter but did not exceed the return of the S&P 500 Index.
- Information technology was the strongest contributor due to both our higher-sector weighting and its high return.
- Relative to the Index, financials and health care were the biggest detractors despite their positive returns. Financials underperformed the Index due to its higher weighting but lower return of our holdings. Conversely, health care underperformed due to its lower weighting, although the return of our holdings was higher than that of 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 (%)
Communication Services	10.02	-0.08	10.26	1.03	-0.01	-0.11	-0.12
Consumer Discretionary	13.30	6.77	10.09	9.28	0.04	-0.29	-0.25
Consumer Staples	3.90	1.48	6.81	5.71	0.05	-0.17	-0.12
Energy	5.06	-2.00	6.02	0.72	0.06	-0.12	-0.06
Financials	25.82	3.34	13.86	4.36	-0.37	-0.27	-0.63
Health Care	8.49	14.94	14.52	14.53	-0.38	0.03	-0.35
Industrials	6.32	12.37	9.66	9.98	-0.08	0.13	0.06
Information Technology	24.77	13.34	20.60	12.53	0.18	0.19	0.37
Materials	--	--	2.53	0.36	0.18	--	0.18
Real Estate	2.31	0.51	2.75	0.80	0.03	-0.01	0.01
Utilities	--	--	2.89	2.38	0.15	--	0.15
Total	**100.00**	**6.96**	**100.00**	**7.73**	**-0.14**	**-0.63**	**-0.77**

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Quarterly Contribution to Return

- The top contributors to return reflect both the weighting in the portfolio and total return of the stocks. All of the top contributors in the quarter are among the largest holdings in the portfolio.
- **Visa** and **Mastercard** posted strong quarterly results. Both companies continue to invest in new initiatives to support and enhance future growth. Late in the quarter, the stocks responded favorably to the news that the companies reached a settlement in a U.S. merchant class-action litigation case.
- **Apple** exceeded investors' expectations with its second-quarter report. iPhone revenue increased by 20% compared to last year's sales. While unit growth was only 1%, the average sales price increased 20%. Apple raised its dividend 16% and repurchased over $20 billion of its shares in the quarter.
- **Lowe's** newly appointed CEO Marvin Ellison announced various initiatives in an effort to improve the company's operations, including exiting an underperforming business unit and naming a new chief financial officer. These actions were viewed positively by investors.
- **Berkshire Hathaway** reported stronger-than-expected quarterly results in all of its major operating segments and created more flexibility to repurchase its own shares from investors.
- Facebook's decline in the quarter reflected investors' concerns regarding slowing growth and the possibility of government regulations. Following its quarterly report, the shares fell, as investors were disappointed in the company's results as compared to prior quarters. Facebook's "problem" for some investors was that it reported a year-over-year gain of 42% in revenues but only 32% in operating profits. We think Facebook is difficult to replicate or replace and while not essential to users' lives, is an important source of entertainment that should produce healthy and growing profits for years to come. We viewed the drop in share price as an opportunity to add to our holding.
- Altaba has a meaningful equity stake in Alibaba (BABA), the largest e-commerce company in China. The stock declined due to concerns about economic slowdown in China, which impacts Alibaba. We participated in a tender offer by Altaba to exchange cash and shares of **Alibaba** for Altaba shares. You will see Alibaba as a new holding in the portfolio and a smaller holding in Altaba as a result. We believe that Alibaba will continue to achieve above-average growth both in China and other regions in Asia. Altaba will continue to work toward maximizing its value to shareholders of its holdings in Alibaba.

Portfolio Activity

- We participated in a tender offer from Altaba to exchange a portion of our shares for cash as well as shares in Alibaba. Alibaba continues to grow at a rapid clip both in China and other regions in Asia. Its other investments (e.g., cloud computing, Alipay) continue to show progress and garner additional market share.
- We initiated a new investment in **Cimarex**, an oil and gas exploration and production company with production assets primarily in the Permian Basin and Mid-Continent region. Management is focused on generating an attractive return on invested capital over the full cycle, and it fully burdens the costs in the calculation. Earnings should improve significantly, as bottleneck issues related to the transportation of oil and gas should be resolved with new pipeline capacity next year.
- KKR & Co. is a private equity investment firm that converted on July 1 from a partnership to a corporation after U.S. tax reform made the tax hit of conversion less painful. We found this to be a good catalyst, along with an attractive valuation, for investing.
- Taiwan Semiconductor Manufacturing (TSM) is the leading producer of semiconductors for semiconductor companies that do not have their own chip manufacturing facilities, or foundries, as they are called in the industry. Making semiconductors smaller is highly technical work, and the designers of these chips will not trust the intellectual property of the company's designs to just anyone. We believe TSM has advantages of technical skill and intellectual property trust versus competitors, enabling it to earn and sustain attractive returns in its business. We were able to invest when the shares dipped briefly in July.

FLEXIBLE EQUITY REP. ACCOUNT TOP FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
V	Visa Inc. Class A	6.03	13.49	0.78
AAPL	Apple Inc.	3.74	22.38	0.77
BRK.B	Berkshire Hathaway Inc. Class B	4.92	14.71	0.69
LOW	Lowe's Companies, Inc.	3.39	20.72	0.66
MA	Mastercard Incorporated Class A	4.92	13.42	0.64
FLEXIBLE EQUITY REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
FB	Facebook, Inc. Class A	3.21	-15.37	-0.58
AABA	Altaba Inc.	2.18	-6.95	-0.18
WFC	Wells Fargo & Company	3.49	-4.50	-0.13
SCHW	Charles Schwab Corporation	3.24	-3.57	-0.11
EBAY	eBay Inc.	1.03	-8.94	-0.09

- **Wells Fargo** did not impress investors with its quarterly report, and the stock continues to be penalized for the company's past misdeeds. Going forward, however, we believe that the company has taken steps to markedly improve its business practices, and we expect better results in the future.
- **Charles Schwab** continues to achieve attractive operating results, but investors are questioning future growth in earnings, as Schwab clients transfer their cash deposits to cash alternative investments, which may be less profitable for the company.
- eBay, one of the smallest holdings in the portfolio, reported softer revenue growth, raising investors' concerns regarding the success of new product initiatives.

FLEXIBLE EQUITY REP. ACCOUNT PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
KKR	KKR & Co. Inc. Class A	Financials
TSM	Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	Information Technology
BABA	Alibaba Group Holding Ltd. Sponsored ADR	Consumer Discretionary
XEC	Cimarex Energy Co.	Energy
DELETIONS		**SECTOR**
AET	Aetna Inc.	Health Care
CMG	Chipotle Mexican Grill, Inc.	Consumer Discretionary

- We eliminated health care benefits company **Aetna**, which is targeted to be acquired by CVS, in favor of continuing to build our position in **Anthem**, which we believe has better upside potential.
- We eliminated Chipotle Mexican Grill, as its valuation expanded reflecting a more positive view of the company following a management change. We reinvested the proceeds in companies with lower valuations and, in our estimation, better return potential.

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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.
12. 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 Institutional Flexible Equity 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 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.