

Fourth Quarter 2017

COMPOSITE PERFORMANCE(%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P® 500 INDEX
3 MOS.	7.46	7.37	6.64
1 YR.	25.03	24.67	21.83
3 YR.	10.40	10.00	11.41
5 YR.	16.08	15.66	15.79
10 YR.	9.97	9.43	8.50
ITD (01/01/1985)	13.58	12.84	11.35

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.	\$226.3 B	\$196.7 B
Weighted Median Market Cap.	\$94.4 B	\$94.4 B
P/E Ratio (FY2 Est.)	19.0x	18.1x
Price/Book Value	3.3x	3.2x
Earnings Growth (3-5 Yr. Est.)	13.7%	12.0%
Return on Equity (ROE)	22.5%	19.3%
Active Share	73.6%	--
Portfolio Turnover (3-Yr. Average)	12.5%	--

REP. ACCOUNT TOP 10 HOLDINGS

SECURITY	% PORTFOLIO
Visa, Inc.	5.7
Berkshire Hathaway, Inc. Cl B	5.2
Alphabet, Inc. (Class A & C)*	4.9
Mastercard, Inc.	4.2
Wells Fargo & Co.	4.0
Charles Schwab Corp.	3.5
Apple, Inc.	3.3
JPMorgan Chase & Co.	3.3
Microsoft Corp.	3.2
Lowe's Companies, Inc.	3.2
TOTAL	40.5

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

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Portfolio Manager



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Review & Outlook

For the fourth quarter and the full year 2017, the Flexible Equity Strategy results exceeded the S&P 500® Index returns of 6.6% and 21.8%, respectively. The latest quarter was the sixth consecutive quarter of outperforming the strategy's benchmark after a six-quarter run of underperforming. In no period did we make (or have we ever made) any decision based on expectations for the next three months, but performance nevertheless runs in streaks from time to time. Managers sometimes look smart or silly, depending on their latest string of results, but long-term results matter more than streaks or quarters.

Turning to the 10-year trailing period, the Flexible Equity Strategy outperformed in 23 quarters, including two additional "over" streaks of five quarters, and underperformed in 17 quarters, including an added two- and a three-quarter "under" streak. The 10-year results exceed the S&P 500 Index and coincide with a full market cycle from peak to trough and back to new highs. The streaks in relative performance occur due to a particularly good or poor stock pick, or particularly good or poor alignment with what the market favors in any short period, both of which occur somewhat randomly. Our goal is to pick investments that will prove themselves and outdistance the market over time though short-term periods will always vary.

Recent equity results continue to reflect a favorable environment for equities, which added a significant corporate tax cut in late December to the general economic expansion, low interest rates and high levels of business, investor and consumer confidence, pushing stocks up through the year. Isn't it wonderful to watch your portfolio values climb? Yes, of course, and this should be expected over time, but positive sentiment can carry prices too far for unexpected events, or any erosion in the environment, to maintain. The current bull market that began in March of 2009 ranks as the second longest in length and third highest in gains going back to the Great Depression. Equity investing in the U.S. has been a positive sum game cumulatively over the long run, and about 70% of the time in the short run. Set some capital aside when times are good for when the pendulum of events and sentiment swings back the other way. Please consider your own situation and take this as time-proven wisdom rather than an attempt to call the top.

We added **Suncor Energy**, **UnitedHealth Group** and **Conagra Brands** to portfolios this quarter. Suncor is a low-cost oil producer in Canada with a long-lived resource base and a management team that showed good capital allocation skills during the oil price downturn. Suncor should benefit from improving commodity prices. Conagra Brands used to be a poorly-run packaged food company, but whose brands and economic prospects are now being revitalized under new leadership. UnitedHealth Group is a leading managed health care company in the U.S. Managed health care is an attractive industry that has benefited from a tollbooth position on continually rising health care spending. United has distinguished itself with superior use of data to drive innovation and execution for better patient outcomes and returns to investors. If you are an American football fan, think of United as the New England Patriots of managed care available at a narrower-than-usual point spread. Capital for these purchases came from the sale of **Express Scripts** and cash on hand.

We search for investment bargains among long-term, attractive businesses with shareholder-oriented managers. These businesses should have or are expected to 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 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. To that end, our team is smart, enterprising and motivated in this search. **B**

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 as a result of the sector's weak performance in the portfolio and our trim of **Hanesbrands**.
- Strong sector performance, additions to **Nomad Foods Ltd.** and new holding Conagra Brands increased our consumer staples weighting.
- New holding Suncor Energy increased our energy weighting.
- In health care, we eliminated Express Scripts and trimmed **Aetna**, reinvesting proceeds into new holding UnitedHealth Group. The weighting changed very slightly.
- In industrials, we added to **Delta Airlines** and trimmed **United Rentals**. The weighting increased very modestly.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	FLEXIBLE EQUITY REP. ACCOUNT (%)	
	Q4 '17	Q4 '17	Q4 '17	Q3 '17	Q4 '16
Consumer Discretionary	14.20	12.14	2.07	17.06	18.33
Consumer Staples	3.93	8.20	-4.27	2.43	1.39
Energy	4.46	6.07	-1.61	3.91	5.03
Financials	28.12	14.78	13.33	27.42	26.32
Health Care	8.00	13.84	-5.84	8.17	11.51
Industrials	7.45	10.26	-2.81	7.18	7.06
Information Technology	32.06	23.83	8.23	32.08	28.59
Materials	--	3.00	-3.00	--	--
Real Estate	1.78	2.89	-1.11	1.75	1.78
Telecommunication Services	--	2.06	-2.06	--	--
Utilities	--	2.93	-2.93	--	--

Quarterly Attribution Detail by Sector

- Attribution is a tool that shows the effect of sector allocation and stock selection relative to benchmark performance.
- The portfolio return exceeded the return of the S&P 500 Index.
- Financials were the strongest contributors due to both our higher-sector weighting and higher return. Relative to the Index, health care was the second best contributor, as the sector in the portfolio had a lower weighting but a higher return than the Index.
- The consumer discretionary sector was the biggest detractor to results, posting an overall decline versus the strong return and lower weighting of the sector in the S&P 500 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	15.90	-2.63	11.91	10.08	0.11	-2.04	-1.94
Consumer Staples	2.66	11.22	8.11	6.49	0.02	0.13	0.15
Energy	4.26	3.90	5.93	6.02	0.04	-0.08	-0.05
Financials	27.74	12.18	14.66	8.63	0.25	0.93	1.18
Health Care	7.60	5.94	14.16	1.47	0.35	0.30	0.65
Industrials	7.26	7.72	10.15	6.09	0.02	0.11	0.13
Information Technology	32.76	9.78	24.02	8.91	0.23	0.25	0.48
Materials	--	--	2.99	6.93	-0.01	--	-0.01
Real Estate	1.81	12.09	2.96	3.22	0.04	0.16	0.20
Telecommunication Services	--	--	1.97	3.54	0.07	--	0.07
Utilities	--	--	3.12	0.21	0.19	--	0.19
Total	100.00	7.71	100.00	6.65	1.31	-0.25	1.07

Quarterly Contribution to Return

- **Charles Schwab** posted strong revenue, earnings and asset growth in the quarter, and the company achieved record operating margins. We believe that Schwab is well-positioned to continue to grow earnings in excess of 20%. The company is also a beneficiary of the reduction in the corporate tax rate.
- **Visa** exceeded investor expectations for both revenue and earnings growth in the quarter. Given the positive outlook for the expansion and adoption of mobile payments and other new technologies, we expect Visa's earnings will grow at a mid-teens or higher rate of growth.
- **Microsoft** reported strong quarterly results, exceeding investors' expectations for revenue, earnings and operating profit growth. The company appears to be successfully transitioning from its dependence on legacy personal computing businesses to the newer cloud services offerings.
- **Lowe's** quarterly revenues benefited from the additional sales for hurricane-related repairs. The company also achieved good sales growth in various categories, raised full-year guidance for earnings and increased its share repurchase plan.
- **Ameriprise** reported strong earnings growth and profitability for the third quarter. The company should continue to prosper from accelerating trends in wealth management.
- **CarMax** reported good quarterly results, but its share price declined as investors were disappointed in the same-store unit growth rate. CarMax can be a volatile stock, especially around its earnings reports, but we believe the company's long-term growth prospects are excellent.
- Hanesbrands' organic growth has been negatively impacted by the shift to online sales away from department stores. To improve its competitive position, the company may increase its promotional and marketing expenses, which may inhibit earnings growth initially.
- **Priceline**, also a volatile stock, declined despite attractive earnings growth as investors were concerned about changes in its projected advertising spending. Ad spending is going up in brand building versus transactional channels to drive more direct traffic to its booking sites.
- **Kinder Morgan's** outlook is positive, with the expectation for future dividend increases, but near-term challenges, such as the progress for the Trans Mountain Pipeline in Canada and the uncertain impact of tax legislation, caused the stock price to decline.
- Express Scripts' business trends became more challenging, and we sold the position.

Portfolio Activity

- We added three new investments to the portfolio—Conagra Brands, Suncor Energy and UnitedHealth Group—and eliminated Express Scripts Holding Co.
- We believe that Conagra Brands will achieve success in improving its operations. The new management team, led by a CEO with an impressive track record, is in the process of transforming the company by becoming leaner, selling off commodity-like assets and revitalizing its food portfolio. Management is focused on profitability rather than volume growth. We think it will continue to make progress, which should provide us with good returns.
- We view Suncor Energy as a differentiated way to invest in the energy industry. Suncor, a Canadian integrated energy company, specializes in production of synthetic crude from oil sands. We believe Suncor has a superior business model, strong fundamentals and management focused on the right things: cost reduction, optimizing capex and smart capital allocation. Valuation is reasonable, and we see strong upside potential with rising oil prices.
- UnitedHealth Group is a leading managed health care company in the U.S. Competitive advantages include scale, breadth of products, and how it manages and uses the data on patient diagnoses, procedures, drug utilization and providers to serve members better and more efficiently. Its attractive business results over time, which we expect to continue, combined with a valuation in line with market averages led us to this new investment.

FLEXIBLE EQUITY REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
SCHW	Charles Schwab Corporation	3.47	17.66	0.59
V	Visa Inc. Class A	5.89	8.53	0.50
MSFT	Microsoft Corporation	3.33	15.42	0.50
LOW	Lowe's Companies, Inc.	3.04	16.85	0.49
AMP	Ameriprise Financial, Inc.	3.00	14.71	0.43
FLEXIBLE EQUITY REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
KMX	CarMax, Inc.	3.21	-15.41	-0.54
HBI	Hanesbrands Inc.	2.12	-14.48	-0.42
PCLN	Priceline Group Inc	3.20	-5.08	-0.16
KMI	Kinder Morgan Inc Class P	2.18	-5.14	-0.14
ESRX	Express Scripts Holding Company	0.18	-10.28	-0.12

FLEXIBLE EQUITY REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
CAG	Conagra Brands, Inc.	Consumer Staples
SU	Suncor Energy Inc.	Energy
UNH	UnitedHealth Group Incorporated	Health Care
DELETIONS		SECTOR
ESRX	Express Scripts Holding Company	Health Care

- We eliminated Express Scripts due to erosion of its competitive position and loss of a key customer.

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)
*2016	9.9	9.4	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	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	-37.0	16.6	15.1	51	1.9	1,541	8,547
2007	-6.7	-7.4	5.5	8.3	7.7	84	1.9	4,070	N/A

* Returns prior to 2008 were earned at ABIM, therefore firm assets are not applicable.

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.

- 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.
- 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. This composite has been examined for the periods from July 1, 2008 through December 31, 2009. The examination reports are available upon request. 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.
- Prior to January 1, 2000, this composite consisted of accounts based on their tax-exempt status, which would have included individual IRAs and excluded taxable corporation assets. Subsequent to January 1, 2000, the composite was redefined to include all institutional accounts regardless of taxable status. Rates of return for taxable accounts may vary due to tax considerations.
- As of January 1, 1993, the composite calculation weights accounts based on assets under management. Previously, accounts were weighted on an equal basis in the composite calculation.
- This composite was created in 1985.
- 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.
- The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. From January 2000, 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.
- 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.
- Gross-of-fee 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. Actual fees may vary, depending on, among other things, the applicable fee schedule and portfolio size. The highest applicable 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. 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.
- 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.
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
- 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 12/31/2017 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.