Flexible Equity

QUARTERLY STRATEGY UPDATE

Fourth Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P® 500 INDEX
3 MOS.	-14.77	-14.89	-13.52
1 YR.	-3.30	-3.70	-4.38
3 YR.	9.95	9.51	9.26
5 YR.	8.21	7.80	8.49
10 YR.	14.70	14.17	13.12
25 YR.	10.87	10.18	9.07
ITD (12/31/1984)	13.05	12.31	10.85

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.	$233.1B	$200.8B
Weighted Median Market Cap.	$122.7B	$99.1B
P/E Ratio (FY2 Est.)	14.3x	14.4x
Price/Book Value	2.7x	2.8x
Earnings Growth (3-5 Yr. Est.)	15.2%	12.9%
Return on Equity (ROE)	25.0%	20.1%
Portfolio Turnover (3-Yr. Average)	13.5%	--
Active Share	71.7%	--

SECURITY	% PORTFOLIO
Visa, Inc.	6.3
Mastercard, Inc.	5.0
Alphabet. Inc. (Class A & C)*	5.0
Berkshire Hathaway, Inc. Cl B	4.9
Microsoft Corp.	4.0
Apple, Inc.	3.6
Lowe's Companies, Inc.	3.6
CarMax, Inc.	3.3
JPMorgan Chase & Co.	3.3
Edwards Lifesciences Corp.	3.3
TOTAL	**42.3**

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

R. HUTCHINGS VERNON, CFA
Portfolio Manager

MANEESH BAJAJ, CFA
Portfolio Manager

Review & Outlook

The U.S. stock market fell sharply in the fourth quarter, from the highs reached in the third quarter, resulting in a decline for the full year of 2018. Specifically, the total return of the strategy's benchmark, the S&P 500® Index, was -13.5% in the fourth quarter and -4.4% for the full year. Flexible Equity portfolios declined more than the market in the fourth quarter and less than the market for the year.

Since September, the mood of the market devolved from confident to concerned as focus turned to the length of time (10 years) since the last retreat in global economic activity. This concern was exacerbated by signs of slowing economic expansion, fears about the effects of higher interest rates (10-year U.S. Treasury rates had more than doubled from their low of 1.4% in July 2016), a flattened and almost inverted U.S. yield curve (sometimes a signal of a recession to come), the U.S. election results (moving from one-party to two-party control in Congress), a 40% decline in the price of oil, U.S. trade tensions with China and a federal budget impasse leading to a U.S. government shutdown. Interestingly, these news items, or their ilk, have all happened before in modern economic and financial history. They are the "usual suspects" for a market retreat, especially after sustained gains, and all are subject to change.

Price declines are the offsetting mechanism when the markets sense a dimming, though far-from-dark, outlook. Since you cannot expect to get bargain prices when the news is thoroughly wonderful, a dose of bad news is helpful if you like to buy your goods on sale. The markets had a sale in the fourth quarter, reaching a 20% decline on Christmas Eve from the top of September 20, 2018. Whether 20% is the first or final wave of markdowns remains to be seen, but it gets our attention! Since we like lower prices when we put capital to work, we were more active buying than selling this past quarter, but because we did not have big holdings in cash and equivalents, you will see both purchases and trims in our activities. As stocks declined, bonds rallied strongly, which begins to relieve the pressure point of higher interest rates we noted above. At current interest rates and equity valuations, we continue to view stocks as more attractive than bonds, though obviously having some cash to add to equities when the markets go on sale is helpful.

Prices are set in the moment and reflect the meeting point of the most eager buyers with the most eager sellers. The most dramatic price changes occur when the urgency of one side causes the other to step back. Consequently, prices can swing far above or below prior levels or long-term values depending on the actual events and the perceptions, fears and dreams of investors. Markets can be placid, but the potential for volatility always remains. On the other hand, human ingenuity, economic and business progress, and moderate rates of inflation are usually reflected in higher business values and, short-term volatility aside, securities' prices over time.

In last quarter's commentary, we discussed "growth" stocks and "value" stocks, putting these labels in quotes because the stocks themselves do not innately and immutably possess these traits. 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 should be expected to permanently outperform the other, despite periodic long runs favoring one or the other. In recent years, "growth" stocks have outperformed "value" stocks, but in the fourth quarter, as markets retreated, "value" outperformed "growth" perhaps as "value," not having gained so much as "growth" previously, had less to retreat.

The Flexible Equity strategy contains both "growth" and "value" stocks as the market labels them, but we have neither a value nor a growth style of investing. We always want to get a lot for our money, so you should think of us first as having a value philosophy. However, we recognize that companies that can grow their sales and earnings while earning a strong return on invested capital offer more favorable long-term prospects to investors than those that cannot, so you can think of us as having a growth philosophy as well. We distinguish philosophy from style because value judgements are subjective, more so than objectively quantifiable.

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 attractive 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 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.
- Our consumer discretionary weighting increased with the addition of **Amazon.com**.
- We eliminated **PepsiCo** in consumer staples, reinvesting the proceeds from the sale in various portfolio holdings we believe have better return prospects.
- In energy, we eliminated **Occidental Petroleum**.
- With the purchase of **DowDuPont**, we initiated an investment in the materials sector.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	FLEXIBLE EQUITY REP. ACCOUNT (%)	
	Q4 '18	Q4 '18	Q4 '18	Q3 '18	Q4 '17
Communication Services	9.90	10.12	-0.23	10.03	9.75
Consumer Discretionary	13.08	9.94	3.14	12.60	13.69
Consumer Staples	2.78	7.41	-4.63	4.06	3.93
Energy	4.55	5.32	-0.76	5.27	4.46
Financials	24.10	13.31	10.79	24.80	28.12
Health Care	9.61	15.54	-5.94	9.03	8.00
Industrials	6.17	9.20	-3.03	6.42	7.45
Information Technology	25.80	20.12	5.68	25.54	22.82
Materials	1.55	2.73	-1.18	--	--
Real Estate	2.47	2.96	-0.50	2.26	1.78
Utilities	--	3.34	-3.34	--	--

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 S&P 500 Index fell 13.5% on a total return basis, which was less than the portfolio's decline.
- Information technology was the strongest contributor. As compared to the Index, the sector in the portfolio declined less than the Index and had a higher weighting.
- Energy had a similar weighting and return as the Index but managed to be the second-best contributor in the quarter.
- Consumer staples was the biggest detractor to results, with a larger decline and lower weighting 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 (%)
Communication Services	9.72	-14.45	9.98	-13.18	--	-0.10	-0.10
Consumer Discretionary	12.04	-16.37	9.91	-16.43	-0.04	0.05	0.01
Consumer Staples	4.02	-23.88	7.28	-5.19	-0.19	-0.74	-0.93
Energy	5.26	-23.62	5.69	-23.80	0.04	0.01	0.05
Financials	24.86	-15.30	13.46	-13.08	0.05	-0.55	-0.50
Health Care	9.32	-6.64	15.29	-8.86	-0.30	0.24	-0.06
Industrials	6.39	-21.56	9.43	-17.29	0.13	-0.31	-0.19
Information Technology	25.25	-14.47	20.34	-17.34	-0.19	0.80	0.62
Materials	0.80	2.29	2.62	-11.52	-0.02	0.01	-0.01
Real Estate	2.35	-0.21	2.85	-3.82	-0.05	0.08	0.03
Utilities	--	--	3.15	1.35	-0.42	--	-0.42
Total	**100.00**	**-15.02**	**100.00**	**-13.52**	**-0.99**	**-0.51**	**-1.50**

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Quarterly Contribution to Return

- The top five contributors to return all increased in value during the period when the market experienced a double-digit decline.
- **PepsiCo** reported strong quarterly results that exceeded investor expectations for revenue growth. The stock performed well relative to others given its more defensive attributes.
- **Broadcom's** stock recovered following its strong quarterly results, and its share repurchase and dividend increase announcements. Investors remain focused on the progress of the integration of the company's recent acquisition of CA Technologies.
- **Merck** reported good quarterly results, raised its dividend 15% and increased its share repurchase program. Merck's immunotherapy cancer drug Keytruda has emerged as a leader in the treatment of various advanced cancers. Keytruda is perceived to have excellent growth prospects, as its use may expand to treat more types of cancer.
- We started a new holding in **Amazon** late in the quarter, after both it and the market had declined.
- **SBA Communications'** share price remained stable during the period versus a declining market.
- **Apple** fell on news that several suppliers of components were revising their revenue outlook, implying that Apple was experiencing a decline in iPhone unit demand.
- **Mastercard** and **Visa** were top performers for the year with strong increases in share price through the third quarter, but they gave up some of their gains in the fourth quarter.
- **Ameriprise** declined in a weak environment for financial stocks. The company reported good results in its core asset and wealth management businesses, but investors are concerned about the possibility of future losses in its long-term care insurance business.
- **Facebook** declined in the quarter as investors continue to be concerned about slowing growth and the possibility of government regulations. Repeating our comments from last quarter, we think Facebook is difficult to replicate or replace, and while it is not essential to users' lives, it is an important source of entertainment that should produce healthy and growing profits for years to come.

FLEXIBLE EQUITY REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
PEP	PepsiCo, Inc.	0.91	6.70	0.07
AVGO	Broadcom Inc.	1.29	4.15	0.07
MRK	Merck & Co., Inc.	0.88	8.49	0.06
AMZN	Amazon.com, Inc.	0.11	0.46	0.02
SBAC	SBA Communications Corp. Class A	1.29	0.78	0.00
FLEXIBLE EQUITY REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
AAPL	Apple Inc.	3.78	-29.88	-1.24
MA	Mastercard Incorporated Class A	4.97	-15.16	-0.75
AMP	Ameriprise Financial, Inc.	2.29	-28.81	-0.72
V	Visa Inc. Class A	6.22	-11.94	-0.72
FB	Facebook, Inc. Class A	3.23	-20.29	-0.68

Portfolio Activity

- We initiated a new position in **Amazon.com**. The recent decline in its share price gave us an opportunity to invest in a market leader with strong future growth prospects and excellent entrepreneurial leadership of founder and CEO Jeff Bezos.
- We added **DowDuPont** as a new holding in October and early November after its shares declined with the market sell-off. We see the merger of Dow and DuPont, two leading chemical and materials companies, under the leadership of Ed Breen as a positive development and believe that the company is making strides in rationalizing its cost structures. We believe its decision to divide the company into three more focused companies later in 2019 will further enhance its ability to create value.
- We eliminated **Occidental Petroleum** and **PepsiCo** in favor of adding to holdings that in our assessment have better upside potential.

FLEXIBLE EQUITY REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
AMZN	Amazon.com, Inc.	Consumer Discretionary
DWDP	DowDuPont Inc.	Materials
DELETIONS		SECTOR
OXY	Occidental Petroleum Corporation	Energy
PEP	PepsiCo, Inc.	Consumer Staples

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, 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 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.

Disclosures

Past performance is not a guarantee of future performance and you may not get back the amount invested.

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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 12/31/2018 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

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. FactSet® is a registered trademark of FactSet Research Systems, Inc. The **Market Capitalization** refers to the aggregate value of a company's publicly-traded stock. **Weighted Average Market Capitalization** of a portfolio equals the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation). **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.