# Flexible Equity

QUARTERLY STRATEGY UPDATE

Third Quarter 2017

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**COMPOSITE PERFORMANCE (%)**

| | COMPOSITE GROSS OF FEES | COMPOSITE NET OF FEES | S&P® 500 INDEX |
|---|---|---|---|
| 3 MOS. | 5.16 | 5.06 | 4.48 |
| YTD | 16.36 | 16.11 | 14.24 |
| 1 YR. | 20.89 | 20.50 | 18.61 |
| 3 YR. | 10.09 | 9.68 | 10.81 |
| 5 YR. | 14.85 | 14.42 | 14.22 |
| 10 YR. | 8.23 | 7.69 | 7.44 |
| 25 YR. | 11.86 | 11.15 | 9.62 |
| ITD (01/01/1985) | 13.44 | 12.69 | 11.22 |

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.

| | FLEXIBLE EQUITY REP. ACCT. | S&P 500 INDEX |
|---|---|---|
| Wtd. Avg. Market Cap. | $203.5 B | $180.5 B |
| Weighted Median Market Cap. | $89.8 B | $92.1 B |
| P/E Ratio (FY2 Est.) | 17.8x | 17.5x |
| Price/Book Value | 3.2x | 3.1x |
| Earnings Growth (3-5 Yr. Est.) | 14.1% | 11.9% |
| Return on Equity (ROE) | 23.2% | 18.8% |
| Active Share | 75.0% | |
| Portfolio Turnover (3-Yr. Average) | 11.9% | -- |

**REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS**

| SECURITY | % PORTFOLIO |
|---|---|
| Visa, Inc. | 5.6 |
| Berkshire Hathaway, Inc. Cl B | 5.1 |
| Alphabet. Inc. (Class A & C)* | 4.8 |
| Mastercard, Inc. | 4.3 |
| Cash & Equivalents | 4.1 |
| Wells Fargo & Co. | 3.9 |
| CarMax, Inc. | 3.4 |
| Apple, Inc. | 3.2 |
| Charles Schwab Corp. | 3.2 |
| Priceline Group, Inc. | 3.2 |
| **TOTAL** | **52.9** |

*Alphabet Inc. represents a 2.1% holding position in class A and 2.7% in class C shares of the stock.

## Review & Outlook

The Flexible Equity strategy exceeded the results of the benchmark S&P 500® Index which returned 4.5% for the quarter, 14.2% for the year-to-date and 18.6% for the one-year period, all ending September 30, 2017.

Recent results reflect a very favorable environment for equities—low interest rates, general economic expansion and business, investor and consumer confidence that is rising or already high. We see no immediate reason for this to change—indeed global economic growth seems to be strengthening and the list of stocks hitting new highs is quite long. But history shows that markets and environments do change, sometimes due to market dynamics and sometimes due to world events which had not previously been fully incorporated into market levels. Neither of these is predictable.

Thus, we repeat our two-part message from last quarter. First, investing in stocks of quality companies at sensible prices is wise over time. And second, owning stocks without the disposition and financial capacity to keep or add to them in less favorable environments will present problems when unexpected market shifts occur. Our message is not that markets are headed down, but if markets heading down would cause distress, now, when prices are up, is the time to prepare for that.

The imperative of modern portfolio management structures constrains managers, including us, from holding large amounts of cash in our equity portfolios. Clients hire us to invest in equities, we are benchmarked against an Index that has no cash component, cash is a low returning asset in the long-term relative to equities. The facts that we are in the markets for the long haul, we cannot predict the timing of market moves, and we can create gains (for taxable clients) also explain this imperative. We have a little bit of cash in reserve to facilitate trading and a little more that is a reserve, but never a large amount.

The valuation of stocks is high today compared to its history, but not so high relative to the still very low interest rates. The median stock (with earnings) trades for about 19 times estimated earnings. At the market low in 2009, this number was about 10 times and a historical median is about 15 times. But valuations need to be looked at relative to their alternatives and 19 times for stocks is low in comparison to the P/E equivalent of 43 times the coupon of a 2.3% yield on a 10-year U.S. Treasury bond. The bond yield too is low historically and with the U.S. Federal Reserve in the process of normalizing interest rates, we suspect it will go higher. But the 2.3% rate in the U.S. is high relative to interest rates in Germany and Japan, which are at zero. The valuation puzzle for equities is how much higher bond rates—pushed up by a tightening Federal Reserve though possibly constrained by low foreign interest rates rates—may go and when? Valuations usually don't set the direction of market moves, but they can help indicate the potential size of a move once it starts.

Flexible Equity portfolios have a bias to benefit from higher interest rates should they continue to rise through our exposure to banking companies. The spread between what banks earn on their loans and securities and pay for their deposits has been depressed by the long period of low interest rates. An expansion in this spread should lead to faster earnings growth, higher returns on capital and stir more interest in a group we view as undervalued and giving a favorable risk versus return prospect.

We added two new holdings to the portfolio in the last quarter, **Nomad Foods** and **Delta Air Lines**. Our thesis in Nomad is backing, at a comparatively low valuation, a successful businessman and capital allocator in a business with opportunity for self-improvement and growth through acquisition. In Delta, our thesis is airline industry consolidation is leading to improved long-term profit prospects and less cyclicality than the past. Delta also has a comparatively low valuation reflecting skepticism over whether the future will indeed be different than the past.

We eliminated our remaining shares in **Teva Pharmaceutical** after it became clear that our original thesis was off track and would not be righted anytime soon. Whenever we have a loser, we try to take some lessons from it. In Teva's case, we let a low valuation tempt us into a lower-quality business that we thought could improve. Initial success with Teva likely slowed our response when its prospects reversed.

Linked here are our notes from the 2017 Berkshire Hathaway shareholders meeting, a meeting that members of the Flexible Equity team have attended for over 30 years. Berkshire is a large holding in our portfolio. We always learn from attending the meeting and hope you will profit from these notes as well.

We search for investment bargains among long-term attractive businesses with shareholder-oriented management. These businesses typically have competitive advantages that produce good economic results, managers who allocate capital well, capacity to adjust to changes in the world, and the ability to grow in value over time. Bargains in these types of stocks arise for many reasons, but are often due to short-term investor perceptions, temporary business challenges that will improve, as-yet-undiscovered or unrecognized opportunities, and company or industry changes for the better. Despite the occasional investment that will go awry, we are optimistic about the long-term outlook for equities of good companies 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. To access the 2017 Berkshire Hathaway Annual Shareholder Meeting notes referenced in this commentary please visit: http://info.brownadvisory.com/berkshirehathaway2017.

# 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 because we trimmed **CarMax** and **Walt Disney**.
- New holding Nomad Foods Ltd. increased our consumer staples weighting.
- Health care decreased due to the elimination of Teva Pharmaceutical Industries and a decline **of Edwards Lifesciences**' share price.
- The industrials weighting increased with new purchase; Delta Air Lines, Inc.
- The information technology weighting was higher as a result of the sector's strong performance in the portfolio and our addition to **Microsoft**. All of our technology holdings, except **Qualcomm**, increased in price during the quarter.

| SECTOR | FLEXIBLE EQUITY REP. ACCOUNT (%) | S&P 500 INDEX (%) | DIFFERENCE (%) | FLEXIBLE EQUITY REP. ACCOUNT (%) | |
|---|---|---|---|---|---|
| | Q3 '17 | Q3 '17 | Q3 '17 | Q2 '17 | Q3 '16 |
| Consumer Discretionary | 17.06 | 11.77 | 5.29 | 18.32 | 16.77 |
| Consumer Staples | 2.43 | 8.23 | -5.81 | 1.37 | 1.50 |
| Energy | 3.91 | 6.09 | -2.18 | 4.01 | 5.67 |
| Financials | 27.42 | 14.61 | 12.81 | 27.22 | 22.50 |
| Health Care | 8.17 | 14.51 | -6.33 | 10.18 | 13.39 |
| Industrials | 7.18 | 10.23 | -3.05 | 6.50 | 8.48 |
| Information Technology | 32.08 | 23.31 | 8.76 | 30.55 | 29.95 |
| Materials | -- | 2.98 | -2.98 | -- | -- |
| Real Estate | 1.75 | 2.99 | -1.23 | 1.84 | 1.73 |
| Telecommunication Services | -- | 2.17 | -2.17 | -- | -- |
| Utilities | -- | 3.12 | -3.12 | -- | -- |

Please note that Altaba Inc., a 2.7% holding in the Flexible Equity Representative Account is included in the Financial Sector by GICS standards, but we believe its economics are driven by its Technology investments.

# Quarterly Attribution Detail by Sector

- Attribution analysis is a tool which shows the effect of sector allocation and stock selection relative to benchmark performance. An overweight to an underperforming sector relative to the benchmark return would show a negative allocation result as would an underweight to an outperforming sector.
- The portfolio return exceeded the return of the S&P 500 Index. The financials and information technology sectors were the strongest contributors due to both our higher sector weightings and higher returns.
- The health care sector was the biggest detractor to results posting an overall decline versus the positive return 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 | 17.40 | 1.75 | 12.03 | 0.93 | -0.19 | 0.13 | -0.06 |
| Consumer Staples | 1.96 | -0.97 | 8.58 | -1.38 | 0.38 | 0.01 | 0.39 |
| Energy | 3.99 | 3.59 | 5.88 | 6.85 | -0.05 | -0.12 | -0.17 |
| Financials | 26.97 | 7.78 | 14.42 | 5.23 | 0.08 | 0.67 | 0.75 |
| Health Care | 8.97 | -1.96 | 14.50 | 3.66 | 0.02 | -0.52 | -0.50 |
| Industrials | 6.91 | 3.52 | 10.18 | 4.21 | 0.02 | -0.04 | -0.01 |
| Information Technology | 31.96 | 9.99 | 23.15 | 8.60 | 0.34 | 0.43 | 0.77 |
| Materials | -- | -- | 2.92 | 5.96 | -0.04 | -- | -0.04 |
| Real Estate | 1.85 | 0.70 | 2.99 | 0.88 | 0.05 | -- | 0.04 |
| Telecommunication Services | -- | -- | 2.13 | 6.78 | -0.04 | -- | -0.04 |
| Utilities | -- | -- | 3.21 | 2.88 | 0.05 | -- | 0.05 |
| **Total** | **100.00** | **5.67** | **100.00** | **4.48** | **0.64** | **0.55** | **1.18** |

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

## Quarterly Contribution to Return

- Both **Visa** and **Mastercard**, the largest and third-largest holdings in the portfolio, reported strong quarterly results and announced new initiatives to support and enhance future growth.
- **CarMax** posted second quarter results that were better than the market expected. Its share price recovered from the investor pessimism regarding used car prices earlier in the year.
- **Altaba** (formerly Yahoo!) shares rose as Alibaba reported first-quarter earnings and revenue that topped Wall Street estimates. Alibaba is the largest investment in Altaba's portfolio and is the key driver of Altaba's share price.
- **Ameriprise Financial** reported strong second-quarter earnings as a result of growth in the asset management business and good expense control.
- **Chipotle** had an incident of norovirus at one store, the publicity of which has slowed the rebound in sales they were seeing from their food safety events in 2015.
- The volatile shares of Edwards Lifesciences fell with concerns regarding a new product introduction from a competitor and the impact of potential health care reforms. We expect the heart-valve replacement market that Edwards serves to continue to expand quickly and Edwards is the leader in this market.
- Walt Disney shares declined following the CEO's comments at a media conference that earnings would be flat in 2017. We expect good earnings growth in 2018 given the positive outlook for theme park attendance and new movie releases. The nagging concern with Disney is cable TV subscription declines affecting revenue at ESPN. Disney will implement new offerings to capture lost subscribers through non-cable offerings.
- **Qualcomm's** earnings were negatively impacted by a revenue shortfall in their licensing business because of ongoing disputes with large customers including Apple.
- Teva's second quarter results fell far short of expectations primarily because of competitive pressures in generic drug prices. The company reduced their dividend and lowered guidance for the balance of the year. We sold the shares following the announcement.

| FLEXIBLE EQUITY REP. ACCOUNT TOP FIVE CONTRIBUTORS | | | | |
|---|---|---|---|---|
| TICKER | NAME | AVG. WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
| V | Visa Inc. Class A | 5.80 | 12.40 | 0.69 |
| MA | Mastercard Incorporated Class A | 4.27 | 16.47 | 0.67 |
| KMX | CarMax, Inc. | 3.29 | 20.22 | 0.64 |
| AABA | Altaba Inc. | 2.72 | 21.59 | 0.54 |
| AMP | Ameriprise Financial, Inc. | 2.80 | 17.33 | 0.45 |
| FLEXIBLE EQUITY REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS | | | | |
| CMG | Chipotle Mexican Grill, Inc. | 1.45 | -26.02 | -0.47 |
| EW | Edwards Lifesciences Corporation | 2.93 | -7.55 | -0.23 |
| DIS | Walt Disney Company | 2.07 | -6.53 | -0.12 |
| QCOM | QUALCOMM Incorporated | 1.70 | -5.09 | -0.09 |
| TEVA | Teva Pharmaceutical Industries Limited Sponsored ADR | 0.49 | -5.93 | -0.09 |

## Portfolio Activity

- We added two new investments to the portfolio, Delta Air Lines and Nomad Foods.
- We invested in Delta based on the consolidation in the airline industry leading to better profitability and less industry cyclicality. The top four U.S. airlines, including Delta, control over 80% of capacity today compared to 49% in 2008. Profitability has greatly improved and we believe reduced competitive rivalry will also reduce industry cyclicality. Delta has used its prosperity to reduce debt, upgrade its fleet, increase dividends and buy back stock. As the case for less competitive rivalry and profit cyclicality unfolds we believe Delta can achieve a higher valuation.
- Nomad Foods manufactures and sells frozen foods in Europe. Their key brands are Birds Eye, Iglo and Findus. The company was put together by Martin Franklin, who has an enviable track record of creating substantial shareholder value at Jarden Corporation over a 15-year period. We believe our investment will grow in value as the management team improves the existing business with better marketing strategies and they execute on potential bolt-on acquisitions in the food industry.
- Teva Pharmaceutical was eliminated from the portfolio as our original investment thesis did not pan out and difficulties in getting the Teva businesses back on track mounted.
- In addition to the new and exited securities, we added to our investments in **Bank of America**, Chipotle and Microsoft and trimmed our investments in CarMax, **T. Rowe Price** and Walt Disney.

| FLEXIBLE EQUITY REP. ACCOUNT PORTFOLIO ACTIVITY | | |
|---|---|---|
| ADDITIONS | | SECTOR |
| DAL | Delta Air Lines, Inc. | Industrials |
| NOMD | Nomad Foods Ltd. | Consumer Staples |
| DELETIONS | | SECTOR |
| TEVA | Teva Pharmaceutical Industries Limited Sponsored ADR | Health Care |

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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) |
|---|---|---|---|---|---|---|---|---|---|
| *2016 | 9.9 | 9.4 | 12 | 12.1 | 10.6 | 52 | 0.2 | 2,883 | 30,417 |
| 2015 | -2 | -2.4 | 1.4 | 11.1 | 10.5 | 56 | 0.2 | 2,686 | 43,746 |
| 2014 | 14 | 13.5 | 13.7 | 9.2 | 9 | 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 | 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 | 26.5 | 21.3 | 19.6 | 48 | 3.4 | 1,905 | 11,058 |
| 2008 | -36.5 | -37 | -37 | 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.

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. 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.
3. 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.
4. 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.
5. This composite was created in 1985.
6. 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.
7. 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.
8. 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.
9. 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. 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.
10. 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.
11. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
12. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
13. Past performance does not indicate future results.
14. 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

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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 9/30/2017 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.

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.

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. **Market Capitalization** refers to the aggregate value of a company's publicly traded stock. Statistics are calculated as follows: **Weighted Average**: 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.