

U.S. Flexible Equity SRI Fund

QUARTERLY UPDATE

First Quarter 2017



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PERFORMANCE (%)

	RETURNS NET OF FEES*	S&P 500 INDEX
3 Mos.	6.02	6.07
1 YR	17.04	17.17
3 YR	5.21	10.37
5 YR	9.30	13.30
ITD (23 May 2011)	9.12	12.89

*U.S. Flexible Equity SRI Fund B USD share class net of fees.

Review & Outlook

The Flexible Equity SRI Fund returned 6.02% vs the S&P 500® Index which returned 6.07% in the first quarter of 2017.

The market results were, in our view, great and they reflect what we believe to be a very favorable environment for equity returns – low interest rates, general economic expansion, and post-election expectations of a pro-business administration ushering in lower taxes and less regulation. We see no immediate reason why great should change; but, neither “great” nor its opposite are one-way streets in investment markets or human affairs. Whatever the current market sentiment or recent results, they should always be tempered by some expectation for change.

Our long-term equity market return expectations are between 6% and 9% annually - below the past one-year result. Our expectations are based on a combination of the S&P 500 Index's current 2% dividend yield, 5% to 7% company earnings growth across a cycle, and a slight downward bias to valuations related to long-term higher interest rate expectations. A significant tax cut would likely boost earnings, but could also boost interest rates further. Equity valuations are high by historic standards, but not in relation to current low interest rates which elevate valuations across all investment alternatives.

The portfolio changed only slightly during the first quarter. We added one new holding, Hanesbrands, on what we believe to be a bargain basis and added slightly to our existing financial holdings. We expect rising interest rates to positively impact the future earnings of banking companies and we believe their capital positions are strong after eight years of enhancing capital levels and reducing risk exposures. We sold retailer Best Buy, a long-term holding, and trimmed several other successful investments. The lone detractor was Teva Pharmaceuticals, which we trimmed at a loss given a change in management and several recent disappointments.

Using portfolio turnover to measure change, the portfolio of the strategy has remained largely unchanged in the quarter and year-over-year; 2.6% difference between March 31, 2017 and December 31, 2016 and 13.5% from March 31, 2016. The inverse of the annual turnover approximates the average holding period; in our case 13.5% equates to 7.4 years*. This confirms our long-term approach to stock selection. Our turnover has ranged from 10% to 40% in any single year with higher numbers occurring when there are big changes in the investment landscape and market prices.

With a low turnover approach, it is rare that any action in a short period will have a major impact on investment results relative to the market. Price movements tend to dominate any changes we make in the portfolio short-term; but in the long-term, aligning with good businesses priced attractively should dominate erratic short-term price movements. For taxable portfolios, low turnover has a further advantage of potentially greater tax efficiency through delayed timing of tax and reduced rates for individuals.

We search for investment bargains, particularly among attractive businesses over the long-term with shareholder-oriented management. These businesses typically have competitive advantages that produce good economic results, management that allocates 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 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.

CHARACTERISTICS

	U.S. FE SRI FUND	S&P 500 INDEX
Weighted Avg. Market Cap.	\$179.2 B	\$163.9 B
Weighted Median Mkt. Cap	\$74.3 B	\$87.6 B
P/E Ratio (FY2 Est.)	16.6x	16.4x
Dividend Yield	1.3%	1.9%
Earnings Growth 3-5 Year Est.	13.2%	11.8%

TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Visa Inc. Class A	5.4
Berkshire Hathaway Inc. Class B	5.3
Alphabet Inc.*	4.8
Wells Fargo & Company	4.2
Priceline Group Inc.	3.9
Mastercard Incorporated Class A	3.8
Lowe's Companies, Inc.	3.4
Apple Inc.	3.4
Charles Schwab Corporation	3.4
CarMax, Inc.	3.3
TOTAL	40.9

*Alphabet Inc. represents a 2.7% holding in Class C and a 2.1% holding in Class A shares.

*This portfolio information is based on a representative Flexible Equity Account.

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 our new investment in Hanesbrands.
- Our trim of Teva Pharmaceuticals and its stock price decline resulted in a lower weighting in health care.
- The information technology weighting was higher as a result of the sector's strong performance in the portfolio. All of our technology holdings, except Qualcomm, increased in price during the quarter.

SECTOR	U.S. FLEXIBLE EQUITY SRI FUND (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	U.S. FLEXIBLE EQUITY SRI FUND (%)	
	Q1 '17	Q1 '17	Q1 '17	Q4 '16	Q1 '16
Consumer Discretionary	20.01	12.25	7.76	19.05	18.34
Consumer Staples	1.43	9.30	-7.87	1.46	1.56
Energy	4.78	6.59	-1.81	5.27	4.67
Financials	25.04	14.36	10.68	25.07	20.80
Health Care	10.54	13.91	-3.37	11.76	13.34
Industrials	3.63	10.08	-6.46	3.82	7.50
Information Technology	32.69	22.16	10.53	31.78	32.27
Materials	--	2.84	-2.84	--	--
Real Estate	1.88	2.94	-1.07	1.80	1.52
Telecom. Services	--	2.38	-2.38	--	--
Utilities	--	3.19	-3.19	--	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- The portfolio return exceeded the return of the S&P 500 Index. On a relative basis, energy was our strongest contributor due to our lower sector weighting and its performance versus the larger decline in the Index holdings. Despite our relative underweight, industrials were a strong contributor due to strong individual company performance. The health care sector detracted from returns with a flat result for our holdings versus a strong return of the sector in the S&P 500 Index.
- Our comparative results, to both the upside and the down, in energy, industrials and health care demonstrate the idiosyncratic nature of our company selections versus broader sector themes.

SECTOR	U.S. FLEXIBLE EQUITY SRI FUND		S&P 500 INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	19.79	8.64	12.11	8.44	0.16	0.04	0.20
Consumer Staples	1.41	7.64	9.33	6.36	-0.02	0.01	-0.01
Energy	5.01	-0.42	6.92	-6.73	0.25	0.36	0.61
Financials	25.16	3.58	14.68	2.53	-0.36	0.27	-0.08
Health Care	10.98	-0.02	13.86	8.42	-0.06	-0.93	-0.99
Industrials	3.69	12.81	10.20	4.57	0.09	0.30	0.39
Information Technology	32.18	10.56	21.57	12.56	0.65	-0.59	0.06
Materials	--	--	2.86	5.84	0.00	--	0.00
Real Estate	1.78	10.00	2.87	3.42	0.03	0.11	0.14
Telecom. Services	--	--	2.47	-3.88	0.26	--	0.26
Utilities	--	--	3.14	6.39	-0.01	--	-0.01
Total	100.00	6.65	100.00	6.08	1.00	-0.43	0.57

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **Priceline** reported strong growth and quarterly results that exceeded investors' expectations.
- **Visa** also reported strong quarterly results and provided a positive outlook which includes mid-teens percentage revenue growth and adjusted earnings per share in 2017.
- **Apple Inc.** shares rose following a better-than-expected earnings announcement and the news of Berkshire Hathaway's (Warren Buffett's) meaningful increase in its Apple investment.
- **Lowe's** reported strong quarterly results and provided a positive outlook. We view Lowe's as a long-term investment, particularly given the recovery in housing investment and home improvement.
- **Ameriprise Financial** rallied sharply off of a low valuation as investors began to anticipate the Trump administration's rollback of the Department of Labor's (DOL) fiduciary rules.
- **Qualcomm** declined despite reasonable quarterly profit performance due to lawsuits it is facing from Apple and the Federal Trade Commission alleging anticompetitive behavior. We look forward to Qualcomm's acquisition of NXP Semiconductors later this year which we believe will be additive to future results.
- At the beginning of the year, **Teva Pharmaceutical** lowered their outlook for 2017 and announced the resignation of their CEO. Following a very challenging 2016, we expect improvement in their results this year based on better execution, efficiencies to be gained in its merger with Actavis, further diversification in its product line, the potential for its drugs under development, and its low valuation.
- **CarMax** shares declined due to investors' concerns about lower used car prices and a less favorable credit environment.
- **Occidental Petroleum** shares declined following its fourth quarter earnings report which did not meet investors' expectations.

U.S. FLEXIBLE EQUITY SRI FUND TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
PCLN	Priceline Group Inc.	3.98	21.41	0.79
V	Visa Inc. Class A	5.51	14.12	0.74
AAPL	Apple Inc.	3.24	24.57	0.72
LOW	Lowe's Companies, Inc.	3.40	16.15	0.51
AMP	Ameriprise Financial, Inc.	2.75	17.60	0.45
U.S. FLEXIBLE EQUITY SRI FUND BOTTOM FIVE CONTRIBUTORS				
QCOM	QUALCOMM Incorporated	2.11	-11.23	-0.30
TEVA	Teva Pharmaceutical Industries Limited	1.88	-10.75	-0.26
KMX	CarMax, Inc.	4.02	-8.03	-0.26
OXY	Occidental Petroleum Corporation	1.80	-9.96	-0.20
TROW	T. Rowe Price Group	1.39	-8.72	-0.13

Quarterly Portfolio Activity

- We added one new investment, Hanesbrands Inc. – an industry leader in mass-market undergarments and sports apparel under brands names including, among others, Hanes and Champion. Despite selling underwear, there is nothing sexy about Hanes' business; yet, Hanes is the market leader in a relatively stable business with recurring demand. It produces good profits and cash flows that it applies to acquisitions of similar businesses offering synergies and returning capital to shareholders through dividends and share repurchase. Two years ago, investors became excited about Hanes' acquisitions and bid the stock into the mid \$30s. Some recent disappointments and investor worries, which we believe are temporary, have presented us with a bargain opportunity.
- We eliminated Best Buy Co., Inc. selling the last of the shares that we first purchased four years ago. At the time of purchase, Best Buy was widely viewed as a company doomed to fail given intense internet competition from Amazon; but, a management change at Best Buy led us to take a closer look. Bringing new ideas, cost discipline, and improving its own internet offering, Best Buy management stabilized sales, improved profit margins, returned capital to shareholders, and produced a large gain for shareholders. Despite the great improvements, Best Buy still operates in a highly competitive arena and we exited the holding based on price.

U.S. FLEXIBLE EQUITY SRI FUND PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
HBI	Hanesbrands Inc.	Consumer Discretionary
DELETIONS		SECTOR
BBY	Best Buy Co., Inc.	Consumer Discretionary

Exclusions

The exclusions from the U.S. Flexible Equity SRI Fund at the end of the first quarter are as follows:

- **General Dynamics Corporation:** involvement in controversial weapons and over 5% turnover from military equipment.
- **United Technologies Corp.:** involvement in controversial weapons.

Disclosures

For institutional investors and professional clients only.

Performance data relates to the Brown Advisory U.S. Flexible Equity SRI Fund. The performance is net of management fees and operating expenses. Past performance may not be a reliable guide to future performance and you may not get back the amount invested. Changes in exchange rates may have an adverse effect on the value price or income of the product. The difference at any one time between the sale and repurchase price of units in the UCITS means that the investment should be viewed as medium to long term. This review is issued by Brown Advisory Limited, authorised and regulated by the Financial Conduct Authority. This is not an invitation to subscribe and is by way of information only.

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Portfolio information is based on the Brown Advisory U.S. Flexible Equity SRI Fund. The S&P 500 Index represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include market capitalization, financial viability, liquidity, public float, sector representation and corporate structure. An index constituent must also be considered a U.S. company.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. 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 the Brown Advisory U.S. Flexible Equity SRI Fund 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. **Dividend Yield** is the ratio of a stock's projected annual dividend payment per share for the fiscal year currently in progress, divided by the stock's price. Portfolio-level statistic equals the weighted average of the ratios of all holdings in the portfolio. **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. **Beta** is a measure of the volatility of a security or a portfolio of securities in comparison to a benchmark or the market as a whole. A beta less than 1 means that the security will be less volatile than the market, while a beta greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it is theoretically 20% more volatile than the market. Portfolio Beta is calculated by comparing the series of monthly returns of the portfolio to the monthly returns of the benchmark, for the period of time specified. Beta is provided for a three-year trailing period. **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.