U.S. Flexible Equity SRI Fund

QUARTERLY UPDATE

Fourth Quarter 2016

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PERFORMANCE (%)

	RETURNS NET OF FEES*	S&P 500 INDEX
3 Mos.	3.32	3.82
1 YR	8.26	11.96
3 YR	3.60	8.87
5 YR	10.91	14.66
ITD (23 May 2011)	8.41	12.31

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

CHARACTERISTICS

	U.S. FE SRI FUND	S&P 500 INDEX
Weighted Avg. Market Cap.	$162.5 B	$150.1 B
Weighted Median Mkt. Cap	$72.4 B	$84.1 B
P/E Ratio (FY2 Est.)	17.1x	16.8x
Dividend Yield	1.3%	2.0%
Earnings Growth 3-5 Year Est.	10.6%	10.2%

TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Berkshire Hathaway Inc. Class B	5.6
Visa Inc. Class A	5.1
Alphabet Inc.*	4.8
CarMax, Inc.	4.5
Wells Fargo & Company	4.2
Mastercard Incorporated Class A	3.8
Priceline Group Inc	3.8
Charles Schwab Corporation	3.6
Lowe's Companies, Inc.	3.2
JPMorgan Chase & Co.	3.1
TOTAL	**41.7**

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

Review & Outlook

For the quarter ended December 31, 2016, the Flexible Equity Strategy performed largely in line with the benchmark S&P 500® Index. For 2016, the Flexible Equity Strategy trailed the S&P 500 Index. The Flexible Equity Strategy results relative to the market were strong in the second half of the year after weak performance during the first half.

The surprise result of the U.S. elections with Donald Trump winning the Presidency and Republicans holding a majority in both houses of Congress has both stimulated and roiled investment markets since the 8th November. We view the new administration as being simultaneously pro-economic growth (lower taxes), pro-business (lower regulatory burden) and also pro-labor (trade protection). This unusual combination of expectations fits well with the most unpredictable president-elect in memory. The U.S. election result following the previous Brexit vote confirms the shifting relative balance among the forces of globalism nationalism, localism and individualism.

There are many possible changes that could happen in the next few years. Before the new administration takes office, investors are mostly projecting first-order effects of any potential change. After assuming office, we may see better the reality of an ecosystem where one can never change only one thing – each action or potential action creates reactions and further changes rippling through the system. In investment markets, prices change quickly with each iteration. Longer term, our baseline assumption for the U.S. system is economic and social progress over time where innovation, competition and democratic elections tend to foster what works and inhibit what does not. We believe this system works, even if unevenly and less than perfectly at times.

In our last review we discussed the potential for rising interest rates from historic lows and the benefit that should have for our financial holdings – a market event we have seen help our portfolio post-election. The action of potential faster economic growth creates the reaction of interest rates moving higher. With our financial holdings, both faster economic growth and higher interest rates are beneficial. If proposals lessening regulation and corporate taxes pass, there may possibly be an extraordinary effect on financials. However interest rates moving substantially higher could limit overall equity market valuations which at some point naturally limits our enthusiasm for financials.

Though we are sometimes asked how we are positioning our portfolio for various events or environments in the market, economy or world, positioning for scenarios is generally not how we invest. Rather we search for investment bargains, particularly among long-term attractive businesses with shareholder-oriented management. These businesses typically have competitive advantages producing better-than-average economic results, management that allocates capital well and capacity to adjust to changes in the world – these businesses tend to grow in value over time. Bargains in the stocks of these businesses can arise for many reasons, but are often due to short-term investor perceptions, temporary business challenges that will improve, or as yet undiscovered or unrecognized opportunities and changes for the better. We are optimistic about the long-term outlook for equities of good companies purchased at reasonable prices and our ability to find them.

Sector Diversification

- Our sector allocation is based on individual stock selection coupled with a reasonable balancing of economic exposures for risk management. We base portfolio decisions primarily on research of companies rather than views relative to sector valuations. We have no current investments in the materials, telecommunications services and utilities sectors.
- Our consumer discretionary weighting increased with our new investment in Chipotle Mexican Grill.
- Strong price appreciation in financial stocks and additions to several of the holdings resulted in a higher sector weighting. Financials was our best performing sector.
- Our trim of Express Scripts and stock price declines in Edwards Lifesciences and Teva Pharmaceutical resulted in a lower weighting in health care.
- Our industrials weighting decreased due to trimming Canadian National Railway and United Rentals on strength.
- The information technology weighting declined as stocks in the sector underperformed others in the portfolio.
- Our real estate holding is Crown Castle (CCI) which owns and leases space on cellular towers to wireless providers. We previously classified CCI in the telecommunications sector. Real estate was introduced as a new sector during the third quarter in the S&P 500 Index having previously been a sub-sector of financials.

SECTOR	U.S. FLEXIBLE EQUITY SRI FUND (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	U.S. FLEXIBLE EQUITY SRI FUND (%)	
	Q4 '16	Q4 '16	Q4 '16	Q3 '16	Q4 '15
Consumer Discretionary	19.05	11.96	7.09	17.34	16.82
Consumer Staples	1.46	9.37	-7.92	1.56	1.47
Energy	5.27	7.58	-2.31	5.88	4.70
Financials	25.07	14.81	10.26	20.78	22.48
Health Care	11.76	13.61	-1.85	13.87	14.12
Industrials	3.82	10.27	-6.45	5.43	7.41
Information Technology	31.78	20.84	10.94	33.35	31.53
Materials	--	2.84	-2.84	--	--
Real Estate	1.80	2.89	-1.09	1.79	1.47
Telecom. Services	--	2.66	-2.66	--	--
Utilities	--	3.17	-3.17	--	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- The portfolio return was largely in line with the return of the S&P 500 Index (gross of fees). Financials contributed the most of any sector to performance due to a large weighting and strong price appreciation of all of the holdings. Consumer sectors were also top contributors relative to the S&P 500 Index.
- Our worst performing sectors were information technology and energy. Both sectors posted overall declines in the portfolio as compared to the positive return for these sectors in the S&P 500 Index.

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	18.82	5.77	12.17	2.31	-0.11	0.66	0.55
Consumer Staples	1.48	-3.08	9.59	-2.00	0.49	-0.02	0.47
Energy	5.43	-6.77	7.38	7.27	-0.06	-0.81	-0.87
Financials	22.80	22.50	13.99	21.10	1.34	0.30	1.64
Health Care	12.51	-8.65	14.03	-3.99	0.13	-0.67	-0.54
Industrials	4.54	14.59	10.23	7.02	-0.19	0.31	0.12
Information Technology	32.68	-2.33	21.17	1.18	-0.32	-1.15	-1.47
Materials	--	--	2.84	4.86	-0.04	--	-0.04
Real Estate	1.75	-6.88	2.87	-4.45	0.10	-0.05	0.05
Telecom. Services	--	--	2.53	4.77	-0.02	--	-0.02
Utilities	--	--	3.18	0.14	0.12	--	0.12
Total	**100.00**	**3.83**	**100.00**	**3.81**	**1.45**	**-1.43**	**0.02**

Sector attribution excludes cash and cash equivalents.

Year-to-Date Attribution Detail by Sector

- The portfolio return lagged the return of the S&P 500 Index for the full year. Compared to the S&P 500 Index, health care and information technology were our worst performing sectors while industrials and consumer holdings contributed the most. Industrial stocks in the portfolio increased meaningfully.
- The health care sector return was impacted by the share price decline in two holdings, Edwards Lifesciences and Teva Pharmaceutical. The information technology investments increased for the year but their return overall was less than the sector return in the S&P 500 Index. In technology, we tend toward recurring revenue and profit business models versus more capital intensive and cyclical areas that had stronger performance recently.

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	18.34	9.98	12.44	6.34	-0.30	0.84	0.54
Consumer Staples	1.54	7.80	10.13	5.44	0.47	0.04	0.51
Energy	5.26	23.33	7.06	27.17	-0.26	-0.05	-0.30
Financials	21.53	19.79	13.13	21.60	0.59	-0.28	0.30
Health Care	13.66	-12.99	14.74	-2.41	0.19	-1.73	-1.54
Industrials	6.12	35.23	10.06	18.10	-0.24	0.71	0.47
Information Technology	31.83	9.21	20.65	13.77	0.18	-1.40	-1.22
Materials	--	--	2.80	16.90	-0.13	--	-0.13
Real Estate	1.72	4.50	2.99	3.75	0.10	0.03	0.13
Telecom. Services	--	--	2.67	23.48	-0.29	--	-0.29
Utilities	--	--	3.32	16.45	-0.15	--	-0.15
Total	**100.00**	**10.26**	**100.00**	**11.96**	**0.14**	**-1.84**	**-1.70**

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **Wells Fargo** was the best contributor owing to its size in the portfolio and the share price rebound following its lows related to the settlement with government agencies over sales practices. We believe that management is making the right steps to improve company culture and reassure the market of its strong franchise. The company is a market leader with good business practices and risk disciplines historically and we believe the recently disclosed lapses will not have long lasting effect.
- Financial holdings **Charles Schwab** and **J.P. Morgan** were among the top contributors to performance in the quarter. We expect that most U.S. financial companies will benefit from reduced regulation and lower corporate taxes—both of which are anticipated policy outcomes of the incoming Trump administration. Financials would also benefit if interest rates lift meaningfully from their historic lows during the years since the 2008-09 financial crisis. The Federal Reserve increased the Federal Funds rate by 25 basis points in December; long-term rates have moved higher since the election.
- **CarMax** posted good business results and its share price continued to recover from its prior lows.
- **Edwards Lifesciences'** stock price fell following its third quarter earnings report, as results failed to meet Wall Street's highest expectations. We believe that the company is still in the early innings of penetrating the potential market for replacement heart valves delivered by catheters rather than open-heart surgery, such that its growth can continue for a long time.
- Several issues impacted the share price of **Teva Pharmaceutical** including concerns that patent protection will end earlier than anticipated for Copaxone, one of its key products and the unexpected departure of the head of their global generics business. Our investment thesis is based on the 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.
- **Kinder Morgan** declined in the quarter following its strong gains in the first nine months of the year.
- **Visa's** share price fell modestly in the quarter despite good business results.
- Investors were concerned about any changes to Verizon's planned acquisition of **Yahoo!** after the company disclosed another data breach affecting 1 billion user accounts. Recall the bulk of Yahoo's value rests in its ownership of leading Chinese online retailer Alibaba.

U.S. FLEXIBLE EQUITY SRI FUND TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
WFC	Wells Fargo & Company	4.17	25.50	0.98
SCHW	Charles Schwab Corporation	3.49	25.28	0.81
KMX	CarMax, Inc.	4.12	20.69	0.81
JPM	JPMorgan Chase & Co.	2.80	30.52	0.76
BRK.B	Berkshire Hathaway Inc. Class B	5.61	12.81	0.70
U.S. FLEXIBLE EQUITY SRI FUND BOTTOM FIVE CONTRIBUTORS				
EW	Edwards Lifesciences Corporation	2.84	-22.28	-0.83
TEVA	Teva Pharm. Industries Limited Sponsored ADR	2.76	-20.59	-0.70
KMI	Kinder Morgan Inc Class P	3.37	-9.91	-0.38
V	Visa Inc. Class A	5.69	-5.46	-0.32
YHOO	Yahoo! Inc.	2.34	-10.28	-0.26

Year-to-Date Contribution to Return

- **Berkshire Hathaway**, the portfolio's second largest holding, increased in value reflecting better business results in 2016 for some of their segments, a higher valuation for financials and an optimistic outlook for economic growth since the presidential election.
- **Kinder Morgan's** share price rebounded after a meaningful decline in 2015. Kinder Morgan has improved their financial position and we believe that investors have gained confidence in the company's future potential.
- **CarMax** posted positive business results and its share price continued to recover from its prior lows.
- Despite a more challenging environment for railroad volumes and pricing growth, **Canadian National Railway** continues to execute well and maintain their high profitability.
- **J.P. Morgan's** share price increased with the future prospects of less regulation and higher interest rates.
- Several issues impacted the share price of **Teva Pharmaceutical** including concerns that patent protection will end earlier than anticipated for Copaxone, one of its key products and the unexpected departure of the head of their global generics business. Our investment thesis is based on the 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. Despite initial gains in 2014, recent disappointments have brought the value back to initial levels. We still believe Teva has the potential to recover to previous high valuations.
- Heightened scrutiny of drug pricing pushed down the price of shares in **Express Scripts** and other health care companies.
- **American Express** was eliminated from the portfolio in the first quarter after a weak earnings report and our concern regarding increased competition for the credit card company.
- We exited **Oceaneering International** when oil prices were lower because of our revised outlook for offshore oil drilling. The technology gains in onshore oil production from U.S. shale make offshore development less competitive, even with a rebound in oil prices.

U.S. FLEXIBLE EQUITY SRI FUND TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
BRK.B	Berkshire Hathaway Inc. Class B	5.44	23.43	1.30
KMI	Kinder Morgan Inc Class P	3.00	42.67	1.22
KMX	CarMax, Inc.	3.72	19.31	1.07
CNI	Canadian National Railway Company	3.38	22.81	0.85
JPM	JPMorgan Chase & Co.	2.52	34.57	0.81
U.S. FLEXIBLE EQUITY SRI FUND BOTTOM FIVE CONTRIBUTORS				
TEVA	Teva Pharm. Industries Limited Sponsored ADR	3.44	-43.44	-2.10
ESRX	Express Scripts Holding Company	3.26	-21.30	-1.02
AXP	American Express Company	0.07	-20.54	-0.23
OII	Oceaneering International, Inc.	0.07	-21.83	-0.17
FB	Facebook, Inc. Class A	0.59	-6.72	-0.15

Quarterly Portfolio Activity

- We initiated a new investment in Chipotle Mexican Grill roughly a year after highly publicized food-borne illness outbreaks at some of its stores caused a steep drop in sales across the chain. The share price declined meaningfully from its prior high presenting a bargain opportunity. We expect that the share price will recover to prior levels as store-level results improve. Company management has been keenly focused on overhauling its food handling and preparation procedures over the past year and we believe that customers are now starting to revisit the stores. Prior to the incidents, Chipotle enjoyed the best unit economics of any restaurant chain and we believe it can return to near those levels as customers come back. Chipotle also has excellent store expansion potential with roughly 2,000 stores in the U.S. but the potential for several thousand more locations in the U.S. and beyond.
- We bought more shares in several existing holdings and we trimmed several holdings in the quarter but there were no eliminations.

U.S. FLEXIBLE EQUITY SRI FUND PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
CMG	Chipotle Mexican Grill, Inc.	Consumer Discretionary

Exclusions

The exclusions from the U.S. Flexible Equity SRI Fund at the end of the fourth 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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The Brown Advisory U.S. Flexible Equity SRI Fund is a sub-fund of Brown Advisory Funds plc, an umbrella fund with segregated liability between sub-funds. The Fund is authorised in Ireland as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities Regulations, 2011 as may be amended, supplemented or consolidated from time to time) and a recognised collective investment scheme for the purposes of section 264 of the Financial Services and Markets Act 2000. The Fund is managed by Brown Advisory LLC.

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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.