

Second Quarter 2018

### COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL® GLOBAL LARGE-CAP NET INDEX
3 Mos.	2.58	2.42	0.63
YTD	6.33	5.97	-0.33
1 YR	21.21	20.32	10.90
3 YR	12.62	11.73	8.30
ITD (1 May 2015)	12.34	11.46	7.03

Provided as supplemental information. The composite performance shown above reflects the Brown Advisory Global Leaders 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

	GLOBAL LEADERS REP. ACCT.	RUSSELL GLOBAL LARGE-CAP NET INDEX
ROIC (LFY ex. financials) Average (%) *	31.2	11.7
Hist 3Yr Sales Growth (Wtd Average) (%)	10.0	7.0
NTM EV/EBIT (ex. financials Wtd Average)	18.1x	19.3x
FCF (LFY ex. financials) Average (%) *	4.1	3.7
P/E (NTM) Wtd Average	22.2x	21.6x

\* Due to data availability, ROIC and FCF Yield are shown as of December 31, 2017.

### REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corporation	6.0
Alphabet Inc. Class C	4.9
Visa Inc. Class A	4.6
Unilever PLC	4.5
JPMorgan Chase & Co.	4.3
Mastercard Incorporated Class A	4.2
Safran S.A.	3.5
Wolters Kluwer NV	3.4
Edwards Lifesciences Corporation	3.3
TJX Companies Inc.	3.2
<b>TOTAL</b>	<b>41.9</b>



**MICK DILLON, CFA**  
Portfolio Manager



**BERTIE THOMSON, CFA**  
Portfolio Manager

## Review & Outlook

The Global Leaders Strategy outperformed its benchmark, the Russell Global Large-Cap Net Index, in the second quarter of 2018.

The Global Leaders Strategy focuses on delivering long-term performance by buying a concentrated portfolio of companies that uniquely satisfy their customers and generate attractive economics for shareholders. In the context of long-term compounding, one quarter is an incredibly short space of time but we were nevertheless pleased to see positive performance in the second quarter despite ongoing volatility stemming from heightened global trade disputes.

Given its concentrated nature, the Global Leaders Strategy's performance is an output of our stock picking, and second quarter relative performance benefited from our holdings in the technology, consumer discretionary and industrials sectors. Safran was the largest single positive contributor to performance during the period. The company reported robust first quarter results boosted by healthy aftermarket sales. We remain confident that Safran can monetize its sizable order book and generate meaningful free cash flow in the decades to come.

Other top contributors during the quarter were technology companies including Visa, Microsoft, Google and consumer discretionary company TJX. They all posted strong results during the quarter with encouraging operational performances.

Taiwan Semiconductor was the top detractor to performance during the quarter. The stock traded off on increased fears of a crypto market bust and trade/tariff risks. Despite these recent fears, the company is succeeding where others are currently failing, and its competitive position, as we look out several years, appears stronger than ever.

We initiated two new positions during the quarter: Ctrip.com International and Flowserve. Ctrip.com is the dominant incumbent leader in online travel in China. We like the business model and its industry position, especially in China, and believe there is a very long runway of outsized growth ahead as the emerging middle class begins to travel for the first time. Flowserve is a manufacturer and supplier of industrial and environmental machinery. We believe we will benefit as Flowserve's businesses come off a cyclical trough and see a reversal from pent-up demand. We do not think the market has fully discounted the internal improvement opportunity or the cyclical upside in the shares. We received a spin-off from Atlas Copco's mining division, Epiroc. We met with the company at the investor day and will continue to spend time with management going forward.

We eliminated two positions during the quarter: FleetCor Technologies and Henkel. We exited our position in FleetCor due to our increased concerns about the superior customer outcome in addition to lofty valuations as the stock approaches fair value. We decided to exit our position in Henkel. After a CEO change and a large recent acquisition in a U.S. laundry company, the competitive environment for the company's consumer businesses has intensified and the pathway to 20% ROIC seems to have stalled.

## Sector Diversification

- Global Leaders is a concentrated global strategy that focuses on investing in a small number of franchises that we believe deliver exceptional outcomes for their customers and outstanding economics for shareholders. Accordingly, sector and country diversification is an output of stock picking. The team is more focused on business models and end-market economics than in which sector a company is classified.
- At the same time, the strategy seeks differentiated exposures but will not compromise philosophically. The portfolio managers are happy to have no exposure in areas—like energy, telecommunications, real estate or utilities—that do not satisfy their investment criteria.
- The strategy's largest overweight position in information technology is a function of a number of attractive, high-quality franchises—including **Visa**, **Microsoft** and **Google**—being classified in that sector.

SECTOR	GLOBAL LEADERS REP. ACCOUNT (%)	RUSSELL GLOBAL LARGE-CAP NET INDEX (%)	DIFFERENCE (%)	GLOBAL LEADERS REP. ACCOUNT (%)	
	Q2 '18	Q2 '18	Q2 '18	Q1 '18	Q2 '17
Consumer Discretionary	16.18	14.03	2.15	14.33	10.65
Consumer Staples	8.89	7.86	1.03	12.24	13.28
Energy	--	6.63	-6.63	--	--
Financials	19.16	17.52	1.64	20.34	19.23
Health Care	3.27	11.02	-7.75	3.13	6.20
Industrials	12.55	9.70	2.85	11.97	14.54
Information Technology	35.34	18.72	16.63	33.17	29.95
Materials	4.62	5.36	-0.74	4.83	6.14
Real Estate	--	3.55	-3.55	--	--
Telecommunication Services	--	2.69	-2.69	--	--
Utilities	--	2.93	-2.93	--	--

Sector diversification excludes cash and cash equivalents.

## Quarterly Attribution Detail by Sector

- Information technology, our largest sector overweight, was the top-performing sector driven primarily by **Facebook**, **Microsoft** and **Mastercard**.
- Strong stock performance in consumer discretionary and industrials positively benefited performance.
- Our lack of exposure to energy hurt us relatively, as it was the top-performing sector in the benchmark.

SECTOR	GLOBAL LEADERS REP. ACCOUNT		RUSSELL GLOBAL LARGE-CAP INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	14.94	9.19	14.10	2.55	0.02	0.98	0.99
Consumer Staples	10.02	-3.14	7.78	-1.19	-0.14	-0.19	-0.33
Energy	--	--	6.44	10.34	-0.59	--	-0.59
Financials	20.09	-2.55	18.25	-5.46	-0.11	0.62	0.51
Health Care	3.11	4.34	10.65	2.92	-0.16	0.03	-0.12
Industrials	11.90	1.27	9.97	-2.93	-0.07	0.51	0.45
Information Technology	35.31	5.57	18.21	4.35	0.67	0.40	1.07
Materials	4.63	4.33	5.55	0.25	0.02	0.15	0.17
Real Estate	--	--	3.47	2.56	-0.06	--	-0.06
Telecommunication Services	--	--	2.69	-3.83	0.13	--	0.13
Utilities	--	--	2.88	1.41	-0.02	--	-0.02
<b>Total</b>	<b>100.00</b>	<b>2.90</b>	<b>100.00</b>	<b>0.70</b>	<b>-0.31</b>	<b>2.52</b>	<b>2.21</b>

Sector attribution excludes cash and cash equivalents.

## Quarterly Contribution to Return

- **Safran** reported robust first-quarter results boosted by healthy aftermarket sales. We remain confident that the company can monetize its sizable order book and generate meaningful free cash flow in the decades to come.
- **Facebook** had a good quarter after it reported strong 1Q18 results.
- **Microsoft** posted strong broad-based results with continued progress in its cloud-based offering.
- **TJX** posted encouraging same-store sales results, which were mainly driven by Marmaxx's, which is one of TJX's business segments.
- **Mastercard** continues to report strong results and, fundamentally, we believe that the business is well-positioned for continued growth and profitability as it continues to develop its business-to-business capabilities.
- **Taiwan Semiconductor** traded off due to increased fears of a crypto market bust and trade/tariff risks. Aside from these recent fears, the company is succeeding at process technology where others are currently failing, and its competitive position appears stronger than ever as we look out several years.
- Weakness in **PT Bank Rakyat** stemmed from the strengthening U.S. dollar and investor concerns about the health of the Indonesian economy.
- **eBay's** quarter was largely in line. Despite the pause in GMV (gross merchandise value) growth acceleration during the quarter, eBay's long-term fundamentals are generally improving. We expect the internal self-help initiatives to bear fruit over time.
- **3M** posted poor results for the quarter and was downgraded due to a subdued outlook for its 2018 financial year.
- Financials underperformed this quarter. **JPMorgan Chase & Co.** declined as a result of sector rotation.

GLOBAL LEADERS REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
SAF-FR	Safran S.A.	3.76	16.72	0.57
FB	Facebook Inc. Class A	2.79	21.61	0.54
MSFT	Microsoft Corporation	5.83	8.51	0.48
TJX	TJX Companies Inc.	2.90	17.23	0.47
MA	Mastercard Incorporated Class A	3.95	12.36	0.46
GLOBAL LEADERS REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
TSM	Taiwan Semiconductor Manufacturing Co. Ltd.	3.41	-14.02	-0.52
BBRI-ID	PT Bank Rakyat Indonesia (Persero) Tbk Class B	2.00	-21.96	-0.50
EBAY	eBay Inc.	2.82	-9.89	-0.31
MMM	3M Company	1.99	-9.78	-0.21
JPM	JPMorgan Chase & Co.	4.46	-4.77	-0.21

## Portfolio Activity

- We added **Ctrip** to the portfolio during the period. Ctrip.com International is the dominant incumbent leader in online travel in China. We like the business model and its industry position, especially in China, and believe that there is a very long runway of outsized growth ahead as the emerging middle class begins to travel for the first time.
- We received a spinoff from Atlas Copco's mining division, **Epiroc**. We met with the company at the investor day and will continue to spend time with management going forward.
- We also added **Flowserve Corporation**, a manufacturer and supplier of industrial and environmental machinery. We believe that we will benefit as Flowserve's businesses come off a cyclical trough and see a reversal from pent-up demand. We do not think the market has fully discounted the internal improvement opportunity or the cyclical upside in the shares.
- We eliminated **FleetCor** from the portfolio due to being increasingly concerned about the superior customer outcome in addition to lofty valuations as the stock approaches fair value. It has been a good investment, but we prefer to reallocate the capital to newer ideas.

GLOBAL LEADERS REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
CTRP	Ctrip.com International Ltd Sponsored ADR	Consumer Discretionary
EPI.B-SE	Epiroc AB Class B	Industrials
FLS	Flowserve Corporation	Industrials
DELETIONS		SECTOR
FLT	FleetCor Technologies Inc.	Information Technology
HEN3-DE	Henkel AG & Co. KGaA	Consumer Staples

- We also decided to exit our position in **Henkel**. After a CEO change and a large recent acquisition in a U.S. laundry company, the competitive environment for the company's consumer businesses has intensified and the pathway to 20% ROIC seems to have stalled.

# Brown Advisory Global Leaders 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	35.1	34.0	24.6	N/A	N/A	2	N/A	77	33,155
2016	-0.6	-1.4	8.1	N/A	N/A	2	N/A	38	30,417
2015**	1.2	0.7	-7.1	N/A	N/A	2	N/A	24	43,746

\*\*Return is for period May 1, 2015 through December 31, 2015.

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.

- \*For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
- The Global Leaders Composite aims to achieve capital appreciation by investing primarily in global equities. The strategy will invest in equity securities of companies that the portfolio manager believes are leaders within their industry or country, as demonstrated by an ability to deliver high relative return on invested capital over time.
- This composite was created in 2015.
- The benchmark is the Russell Global Large-Cap Net Index. This index offers investors access to the large-cap segment of the entire global equity universe. The index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to accurately reflect the changes in the market over time. Russell® is a trademark/service mark of the London Stock Exchange Group companies. One cannot invest directly in an index. Benchmark returns are not covered by the report of the independent verifiers. Benchmark returns are not covered by the report of the independent verifiers.
- The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the composite for the entire period.
- 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. The standard management fee schedule is as follows: 0.80% on the first \$25 million; 0.70% on the next \$25 million; 0.65% on the next \$50 million; and 0.50% on the balance over \$100 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the composite may differ from the current fee schedule.
- The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2015, because 36 monthly returns for the composite were not available (NA) and the composite did not exist.
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
- This piece is provided for informational purposes only and should not be construed as a research report, a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned, including any mutual fund managed by Brown Advisory.

## Disclosures

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

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. The information provided in this material is not intended to be and should not be considered to be 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. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client. The Fund will be available for subscription only in jurisdictions where they have been registered for distribution or may otherwise be distributed lawfully.

Composite performance is based on the Brown Advisory Global Leaders Composite and was obtained through FactSet®. All information and returns shown are as of 12/31/2017 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet and Brown Advisory calculations. This information is based on a representative Global Leaders account and is provided as supplemental information. Account characteristics include 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. The portfolio information provided is based on a representative Global Leaders account and is provided as supplemental information. The information provided in this material should not be considered a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. 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 excludes cash and cash equivalents. Total portfolio return figures provided above 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. 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 statement 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. **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. **Return on Invested Capital (ROIC)** is the percentage amount that a company is making for every percentage point over the Cost of Capital/ Weighted Average Cost of Capital (WACC). More specifically the return on investment capital is the percentage return that a company makes over its invested capital. **Sales growth** rate is based on FactSet reported company revenue for the past three years at the end of the current quarter, provided as a historical average. **EV/EBIT** is a financial ratio used to measure a company's return on investment. 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. The portfolio and benchmark returns provided reflect the sum of the returns of the equity holdings in the portfolio and the benchmark, respectively. The returns exclude cash. **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.