

Fourth Quarter 2017

### COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL® GLOBAL LARGE-CAP NET INDEX
3 Mos.	7.84	7.63	5.77
1 YR	35.07	34.04	23.94
ITD (1 May 2015)	12.21	11.31	8.54

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.



**MICK DILLON, CFA**  
Portfolio Manager



**BERTIE THOMSON, CFA**  
Portfolio Manager

## Review & Outlook

Positive investor sentiment continued in the fourth quarter to crown 2017 as a year of economic optimism and left global equity indices close to all-time highs by the time the world's bourses closed for the New Year's festivities.

The Global Leaders Strategy is focused on delivering long-term performance by buying a concentrated portfolio of outstanding companies that uniquely satisfy their customers and generate outstanding economics for shareholders. Although we are acutely aware of the economic environment, we are stock pickers, and our primary focus is on the operational performances of the franchises in which we invest and their ability to generate cash flow. We were pleased to deliver more alpha for our clients in the fourth quarter as a number of our companies continued to generate value for their customers, which in turn produced strong operational and share price performances. Core holding **Microsoft** was the largest single positive contributor to performance during the period and embodies the customer outcome focus of our strategy. The company continues to effectively migrate its customers toward its cloud products while remaining relevant in its legacy technologies. Microsoft management puts their customers at the center of their strategy, and by breaking down traditional software silos, they have enabled greater freedom for the millions of users of their products.

**Estee Lauder** and **FLEETCOR** were both meaningful contributors to performance during the period. Although there are limited similarities between cosmetics and fuel cards, both companies reported encouraging results following periods of share price weakness stemming from investor preoccupation with transient issues. We firmly believe that equity markets are inefficient over short time periods and frequently offer opportunities for the long-sighted investor.

Finally, two financial holdings—**JPMorgan** and **AIA**—were the other main positive contributors during the quarter. Both companies released what we saw as decent results in the period; JPMorgan shares were further buoyed by the Federal Reserve's decision to raise interest rates in December.

On the negative front, **Unilever**, **Henkel**, **Cognizant** and **Priceline** all detracted from performance during the period due to results that investors did not receive well. Elsewhere, new addition **Electronic Arts' (EA)** shares were weak after the company's new Star Wars Battlefront 2 game was poorly received. We enjoy an active dialogue with the company and view the sell-off as an opportunity given the game's contribution to EA's economics.

As mentioned, we initiated a new position in Electronic Arts during the period. The company has the leading sports franchise in the industry and is set to benefit from the ongoing consolidation of gameplay to a smaller number of blockbuster titles. In addition, EA's business model continues to shift toward digital with downloading—and eventually streaming—improving the economics for shareholders over time. Finally, we believe that EA's shares are undervalued, and we see significant three-year upside as the digital transition plays out.

After extensive due diligence, we added **Deutsche Boerse** to the strategy during the period. The German company owns two valuable pieces of European financial infrastructure: derivative exchange Eurex and custody and settlement operation Clearstream. The franchise is set to benefit from financial market regulation, e.g. moving derivatives to being exchange traded, and any increase in volatility from today's low levels. Deutsche Boerse shares remain attractively valued, on an absolute and relative basis, as investors have priced in today's market conditions as if they will persist forever—we view this as an opportunity for the long-sighted investor.

Conversely, we eliminated **Moody's** from the strategy on valuation concerns following a long period of favorable conditions. Moody's is a decent franchise with a strong market position and one we will revisit in the future, but we felt that these characteristics were more than reflected in the share price given the current economic backdrop.

### REP. ACCOUNT CHARACTERISTICS

	GLOBAL LEADERS REP. ACCT.	RUSSELL GLOBAL LARGE-CAP NET INDEX
NTM EV/EBIT (Wtd Average)	16.7x	19.6x
FCF (LFY ex. financials) Average (%)	4.1	3.7
ROIC (LFY ex. financials) Average (%)	31.2	11.7
Hist 3Yr Sales Growth (Wtd Average) (%)	9.9	5.4
P/E (NTM) Wtd Average	22.4x	21.7x

### REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corporation	5.1
Alphabet Inc. Class C	4.7
JPMorgan Chase & Co.	4.1
Visa Inc. Class A	4.1
Estee Lauder Companies Inc. Class A	3.8
Mastercard Incorporated Class A	3.6
Atlas Copco AB Class B	3.5
Safran S.A.	3.3
Taiwan Semiconductor Manufacturing Co., Ltd.	3.3
Unilever PLC	3.3
<b>TOTAL</b>	<b>38.8</b>

## 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 with the team 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, such as 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 **MasterCard**, **Microsoft** and **Facebook**—being classified in that sector.

SECTOR	GLOBAL LEADERS REP. ACCOUNT (%)	RUSSELL GLOBAL LARGE-CAP NET INDEX (%)	DIFFERENCE (%)	GLOBAL LEADERS REP. ACCOUNT (%)	
	Q4 '17	Q4 '17	Q4 '17	Q3 '17	Q4 '16
Consumer Discretionary	10.68	13.67	-2.99	10.21	13.10
Consumer Staples	12.37	8.53	3.84	12.38	12.71
Energy	--	6.23	-6.23	--	--
Financials	20.28	18.70	1.58	19.70	15.78
Health Care	6.18	10.47	-4.30	5.98	7.44
Industrials	12.50	10.18	2.32	14.39	13.49
Information Technology	32.72	17.01	15.71	31.74	31.49
Materials	5.27	5.70	-0.43	5.61	6.00
Real Estate	--	3.58	-3.58	--	--
Telecommunication Services	--	2.96	-2.96	--	--
Utilities	--	2.92	-2.92	--	--

Sector diversification excludes cash and cash equivalents.

## Quarterly Attribution Detail by Sector

- Encouraging results and rising U.S. interest rates contributed to broad-based strength from our financial holdings.
- Decent results from **Microsoft**, **Alphabet** and **FLEETCOR** drove a positive contribution from our information technology companies.
- Consumer discretionary was the only area of any meaningful weakness after **Priceline** shares were sold off when the company gave characteristically cautious guidance during its results update.

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	10.37	2.75	13.55	7.53	-0.06	-0.49	-0.55
Consumer Staples	12.50	7.27	8.48	5.81	0.01	0.18	0.19
Energy	--	--	6.10	6.62	-0.04	--	-0.04
Financials	19.65	13.80	18.60	6.01	0.01	1.44	1.45
Health Care	6.18	6.42	10.70	1.52	0.20	0.30	0.51
Industrials	13.03	3.64	10.14	5.19	-0.02	-0.16	-0.19
Information Technology	32.77	9.11	17.22	8.29	0.42	0.25	0.67
Materials	5.51	10.37	5.56	7.88	--	0.15	0.15
Real Estate	--	--	3.60	4.16	0.06	--	0.06
Telecommunication Services	--	--	2.95	1.94	0.12	--	0.12
Utilities	--	--	3.06	0.22	0.16	--	0.16
<b>Total</b>	<b>100.00</b>	<b>8.30</b>	<b>100.00</b>	<b>5.77</b>	<b>0.86</b>	<b>1.66</b>	<b>2.52</b>

Sector attribution excludes cash and cash equivalents.

## Quarterly Contribution to Return

- **Microsoft** provided an encouraging update underpinned by strong demand for its cloud products.
- Both **FLEETCOR** and **Estee Lauder** outperformed following strong results releases.
- Financial holdings **JPMorgan** and **AIA** were the two other main positive contributors to performance during the quarter. Both companies released decent results in the period, with JPMorgan shares being further buoyed by the Federal Reserve's decision to raise interest rates in December.
- On the negative front, **Unilever**, **Henkel**, **Cognizant** and **Priceline** were some of the main detractors from performance during the period. Each company reported results that were poorly received by investors.

GLOBAL LEADERS REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MSFT	Microsoft Corporation	5.19	15.42	0.75
EL	Estee Lauder Companies Inc. Class A	3.90	18.35	0.68
FLT	FLEETCOR Technologies, Inc.	2.35	24.33	0.54
JPM	JPMorgan Chase & Co.	4.26	12.61	0.52
B4TX8S	AIA Group Limited	3.25	15.61	0.49
GLOBAL LEADERS REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
B10RZP	Unilever PLC	3.56	-2.97	-0.11
PCLN	Priceline Group Inc.	2.44	-5.08	-0.10
EA	Electronic Arts Inc.	0.60	-3.46	-0.04
500246	Henkel AG & Co. KGaA	3.50	-1.34	-0.04
CTSH	Cognizant Technology Solutions Corporation Class A	2.48	-1.89	-0.02

## Portfolio Activity

- After extensive due diligence, we added **Deutsche Boerse** to the strategy during the period. The German company owns two valuable pieces of European financial infrastructure: derivative exchange Eurex and custody and settlement operation Clearstream. The franchise is set to benefit from financial market and derivatives trading regulation, as well as any increase in volatility from today's low levels. Deutsche Boerse shares remain attractively valued, on an absolute and relative basis, as investors have priced in today's market conditions as if they will persist forever—we view this as an opportunity for the long-sighted investor.
- We initiated a new position in **Electronic Arts (EA)** during the period. The company has the leading sports franchise in the industry and is set to benefit from the ongoing consolidation of gameplay to a smaller number of blockbuster titles. In addition EA's business model continues to shift toward digital with downloading, and eventually streaming, improving the economics for shareholders over time. Finally, we believe that EA's shares are undervalued, and we see significant three-year upside as the digital transition plays out.
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GLOBAL LEADERS REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
702196	Deutsche Boerse AG	Financials
EA	Electronic Arts Inc.	Information Technology
DELETIONS		SECTOR
MCO	Moody's Corporation	Financials

# 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)
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, 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.

- 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

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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.