

# Brown Advisory Global Leaders Strategy

The strategy invests in 30 to 40 leading companies that we believe deliver exceptional customer outcomes. We perform fundamental analysis to identify global companies that have a high return on invested capital and are able to compound performance over long periods of time.

## August 2017 Monthly Report

### Performance Contributors

#### TOP FIVE CONTRIBUTORS\*

TICKER	NAME	SECTOR	AVG. WEIGHT (%)	MONTHLY RETURN (%)	CONTRIBUTION TO RETURN (%)
BXC8BW	Atlas Copco AB Class B	Industrials	3.48	10.20	0.37
EL	Estee Lauder Companies Inc. Class A	Consumer Staples	3.82	8.43	0.31
V	Visa Inc. Class A	Information Technology	4.33	4.14	0.18
MSFT	Microsoft Corporation	Information Technology	4.90	3.40	0.17
MA	Mastercard Incorporated Class A	Information Technology	3.67	4.30	0.16

#### BOTTOM FIVE CONTRIBUTORS\*

TICKER	NAME	SECTOR	AVG. WEIGHT (%)	MONTHLY RETURN (%)	CONTRIBUTION TO RETURN (%)
PCLN	Priceline Group Inc	Consumer Discretionary	2.60	-8.70	-0.24
SCHW	Charles Schwab Corporation	Financials	2.66	-6.82	-0.19
6465	HOSHIZAKI Corp.	Consumer Discretionary	1.53	-10.04	-0.16
500246	Henkel AG & Co. KGaA	Consumer Staples	3.56	-3.61	-0.13
FLT	FleetCor Technologies, Inc.	Consumer Discretionary	2.23	-5.45	-0.13

### Monthly Portfolio Activity

#### NEW INVESTMENT

TICKER	NAME	REASON FOR DECISION
588185	CTS Eventim AG & Co. KGaA	We believe the company is positioned strongly and is poised to further monetize its vast customer database.

#### DELETION

TICKER	NAME	REASON FOR DECISION
NKE	NIKE, Inc. Class B	We struggled to find an adequate margin of safety relative to other opportunities.
VRSK	Verisk Analytics Inc	We struggled to find an adequate margin of safety relative to other opportunities.

### Top 10 Equity Holdings (%)

Cash and equivalents: 4.3%

1. Microsoft Corporation	4.8	6. Estee Lauder Companies Inc. Class A	3.8
2. Alphabet Inc. Class C	4.8	7. Unilever PLC	3.7
3. Visa Inc. Class A	4.2	8. Safran S.A.	3.6
4. JPMorgan Chase & Co.	4.0	9. Mastercard Incorporated Class A	3.6
5. Atlas Copco AB Class B	3.9	10. Taiwan Semiconductor Manufacturing Co., Ltd.	3.5



**MICK DILLON, CFA**  
Lead Portfolio Manager



**BERTIE THOMSON, CFA**  
Co-Portfolio Manager

#### INSIDE THE STRATEGY: FACTS & TYPICAL PORTFOLIO FIGURES

Inception: 05/01/2015	Top 10 Weight: 30%-40%
Benchmark: Russell Global Large-Cap® Net Index	Position Limits: 2.5% position size at initiation, maximum 5%; >40% non-U.S. positions
Portfolio: 30-40 Holdings	Cash Position: 0%-10%

### Portfolio Comments

The Brown Advisory Global Leaders Composite grew 0.8% (net of fees), outperforming its benchmark, the Russell Global Large-Cap® Index, which rose 0.4% during the month of August.

Investors continued to shrug off rising geopolitical risks with many indices reaching new highs in the period. The latest episode of the quarterly results soap opera came to a close with investor perceptions being largely conditioned by recent operational performances. Estee Lauder's update was warmly received and resulted in the company being a meaningful positive contributor during the month. The luxury cosmetics specialist also gave an encouraging outlook for 2018, and the company's shares were further buoyed by bid speculation. Elsewhere, Visa and Mastercard contributed positively to performance as investors continued to embrace each company's structural growth opportunities. Finally, Atlas Copco was the single biggest contributor to performance during August as the Swedish industrial's shares rebounded following unwarranted post-results weakness in July. We added to our positions following the weakness and were rewarded during August with our conviction being underscored by a meeting with management. The recent performances of Atlas Copco and Estee Lauder, which had a torrid 2016, serve as great reminders that over short time periods the market periodically serves up opportunities for the long-sighted investor.

(Continued on the following page)

\*Source: FactSet®. 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 month. Top five and bottom five contributors exclude cash and cash equivalents. 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 top 10 equity holdings exclude cash and equivalents. The portfolio information provided is based on a representative Global Leaders account and is provided as supplemental information. This representative account may differ from specific client portfolios. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions. Past performance is not indicative of future results. The composite performance shown above reflects the Global Leaders Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Global Leaders disclosure statement at the end of this presentation for a GIPS compliant presentation.

On the negative front, Priceline's characteristically cautious third quarter outlook resulted in the online travel agent being the single largest detractor from performance during the month. Although we have been top-slicing our position on strength, we still see significant opportunity for the Priceline business model and continue to monitor the shares to see if investor myopia persists. Elsewhere, concerns about the pace of interest rate hikes by the Federal Reserve resulted in Charles Schwab detracting negatively from performance during the month. Finally Hoshizaki, Henkel and FleetCor were the other main negative detractors in August. In each instance, weakness was prompted by investor preoccupation with short-term, results-oriented factors that we believe are transient.

We initiated a new position in ticketing and live event specialist CTS Eventim during the month. The company has a dominant position in ticketing in Western Europe with a quasi-monopoly in Germany, Austria and Switzerland. CTS Eventim has multiple economic moats and significant optionality to monetize its extensive database of concert goers and sports fans. Early in the month, we eliminated both Nike and Verisk due to the existence of more attractive risk-reward opportunities elsewhere. Both of these franchises have attractive attributes but we struggled to find meaningful upside and crucially adequate margin of safety relative to other opportunities in the strategy. [12](#)

## 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)	Firm Assets (\$USD Millions)
2016	-0.6	-1.4	8.1	N/A	N/A	2	N/A	38	30,417
2015*	1.23	0.68	-7.11	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.

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The Russell Global Large-Cap® Net Index offers investors access to the large-cap segment of the entire global equity universe. The Russell Global Large Cap 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® when related to the Russell indexes is a trademark of the London Stock Exchange Group of companies. An investor cannot invest directly into an index. FactSet® is a registered trademark of FactSet Research Systems, Inc. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. "Global Industry Classification Standard (GICS)", "GICS" and "GICS Direct" are service marks of Standard & Poor's and MSCI. "GICS" is a trademark of MSCI and Standard & Poor's.

## Terms and Definitions for Representative Account Calculations

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. **Contribution To Return** is calculated by multiplying a security's beginning portfolio weight by its daily return and geometrically linking the security's daily contribution to return over the entire reporting period.