Global Leaders

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

First Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL® GLOBAL LARGE-CAP NET INDEX
3 Mos.	3.66	3.47	-0.96
1 YR	28.16	27.17	14.89
ITD (1 May 2015)	12.48	11.59	7.42

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) (%)	9.8	6.5
NTM EV/EBIT (Wtd Average)	16.7x	18.0x
FCF (LFY ex. financials) Average (%) *	4.1	3.7
P/E (NTM) Wtd Average	21.5x	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	5.3
Alphabet Inc. Class C	4.3
JPMorgan Chase & Co.	4.3
Unilever PLC	4.3
Visa Inc. Class A	4.0
Taiwan Semiconductor Manufacturing Co., Ltd.	3.6
Mastercard Incorporated Class A	3.6
Safran S.A.	3.4
Atlas Copco AB Class B	3.3
Henkel AG & Co. KGaA	3.1
TOTAL	**39.2**



MICK DILLON, CFA
Portfolio Manager



BERTIE THOMSON, CFA
Portfolio Manager

Review & Outlook

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

The strategy focuses on delivering long-term performance by buying a concentrated portfolio of companies that uniquely satisfy their customers and generate attractive returns for shareholders. In the context of long-term compounding, one quarter is an incredibly short space of time; nevertheless, we were pleased to see positive performance in the first quarter despite the heightened volatility that returned to the U.S. markets due to concerns of rising interest rates and global trade policy.

Given its concentrated nature, the Global Leaders Strategy's performance is an output of our stock picking and first-quarter performance benefited from our holdings in the technology, consumer staples and financials sectors. Edwards Lifesciences was the largest single positive contributor to performance during the period. Results came in well above expectations, and with stronger operational momentum this year, management raised both revenue and earnings guidance for 2018.

Mastercard posted strong results, and fundamentally, we believe it is well-positioned for continued growth and profitability. Estee Lauder's organic growth came in better than expected. China has been the largest driver of Estee Lauder's acceleration this year, which has been attributable to China's robust sales and the overall Asian travel retail business performing well. Priceline changed its name to Booking Holdings in an effort to associate the brand around its primary function and internationally well-recognized website, Booking.com. The company continues to execute and show consistent growth in room nights booked. We believe the brand consolidation will pay off in the end. Lastly, Deutsche Boerse benefited from cyclical tailwinds as volatility returned during the quarter.

Cigna was the top detractor to performance during the quarter. This was a result of the company's acquisition announcement of Express Scripts, a pharmacy benefit management service that we had passed on in our review process. We view this as a defensive and expensive deal and decided to eliminate our position in Cigna. Facebook suffered from public backlash related to a data security breach, which caused the stock to underperform. This has elevated the potential for new regulatory measures, and we continue to monitor the situation. Schindler, 3M and Sherwin-Williams were down during the quarter due to increasing prices of raw material, slowing growth and rising interest rates, respectively.

In addition to Cigna, we also eliminated Starbucks. We have been taking capital away from Starbucks for over a year and after an extensive review we decided that eBay has a better risk/reward profile, resulting in our decision to swap the position in Starbucks for eBay.

eBay is a global e-commerce leader that connects millions of buyers and sellers around the world. It is fundamentally turning around its e-commerce platform by investing in structured data, which will standardize product listings to better organize the platform and thus improve the consumer experience. The company has also decided to manage the payment process itself, as the current operating agreement with PayPal is soon expiring. We view these opportunities, along with eBay's advertisements and promoted listings, as great upside for the stock.

The other position we initiated during the quarter was Wolters Kluwer. Wolters Kluwer engages in the provision of professional information services and solutions. Having undergone the transition away from traditional print publishing content toward a digital offering, the company is now pursuing a solutions-based business model where products become ever more embedded in their customers' workflows, resulting in higher customer retention and organic growth.

FOR INSTITUTIONAL INVESTORS & PROFESSIONAL CLIENTS ONLY

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 (%)	
	Q1 '18	Q1 '18	Q1 '18	Q4 '17	Q1 '17
Consumer Discretionary	14.33	14.01	0.33	10.68	12.18
Consumer Staples	12.24	8.21	4.03	12.37	12.89
Energy	--	6.04	-6.04	--	--
Financials	20.34	18.71	1.63	20.28	17.40
Health Care	3.13	10.45	-7.32	6.18	7.41
Industrials	11.97	10.11	1.85	12.50	12.60
Information Technology	33.17	17.78	15.38	32.72	31.31
Materials	4.83	5.52	-0.69	5.27	6.20
Real Estate	--	3.48	-3.48	--	--
Telecommunication Services	--	2.77	-2.77	--	--
Utilities	--	2.92	-2.92	--	--

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 **Mastercard**, **Taiwan Semiconductor** and **Microsoft**.
- Strong stock performance in consumer staples and financials positively benefited performance.
- Health care was the worst-performing sector during the quarter. **Cigna's** underperformance lessened the impact from the outperformance **Edwards Lifesciences** generated.

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	11.52	7.41	13.99	0.82	-0.06	0.73	0.67
Consumer Staples	11.64	6.41	8.19	-4.67	-0.12	1.28	1.16
Energy	--	--	6.04	-3.89	0.18	--	0.18
Financials	20.47	3.02	18.93	-0.78	--	0.76	0.76
Health Care	5.75	0.07	10.52	-0.73	--	-0.02	-0.01
Industrials	12.38	-1.70	10.16	-1.99	-0.02	0.04	0.02
Information Technology	33.28	6.02	17.57	2.95	0.64	1.01	1.65
Materials	4.95	-1.64	5.64	-3.92	0.03	0.10	0.13
Real Estate	--	--	3.39	-4.02	0.12	--	0.12
Telecommunication Services	--	--	2.79	-5.64	0.14	--	0.14
Utilities	--	--	2.79	-1.36	0.02	--	0.02
Total	**100.00**	**3.82**	**100.00**	**-1.03**	**0.93**	**3.92**	**4.85**

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **Edwards Lifesciences** provided two updates in the quarter that came in better than expectations: better-than-expected effect from tax reform, about a 3% point reduction; and fourth-quarter results that came in well above expectations, driven by strong transcatheter valve volumes. With the stronger operational momentum going into the year, its typically conservative management raised both revenue and earnings guidance for the year.
- **Mastercard**, the global payments network operator, posted strong fourth-quarter earnings results, and we fundamentally believe that the business is well-positioned for continued growth and profitability.
- **Estee Lauder** continues to surprise on the upside, with organic growth in the last quarter that was much better than expected. The company's robust sales in China and its positioning in the overall Asian travel business are generating positive performance.
- **Booking Holdings** initiated a name change from its former "Priceline" tag in an effort to associate the brand around its primary function and internationally well-recognized website, Booking.com. We are encouraged that the company continues to execute well and show consistent growth in room nights booked. While margins will be under pressure going forward given increased advertising spending, we believe the brand consolidation will pay off in the end.
- Heightened market volatility in the first quarter raised expectations that **Deutsche Boerse** would benefit from cyclical tailwinds across their trading, clearing and settlement businesses. It is also currently benefiting from Brexit uncertainty as European clients, unsure of how much of its trading and clearing can continue in London, are moving some of their business to Deutsche Boerse and away from London and competitor LSE.
- **Cigna** announced it is acquiring Express Scripts during the quarter, which caused concern among investors.
- **Facebook** suffered from the public backlash related to the disclosure that Cambridge Analytica contracted third-party Facebook applications to pull data about its subscribers, potentially impacting 87 million users. While there has been a call for users to drop the social media platform, the largest concern stems from potential regulatory changes. We are monitoring the situation and may look to update our thinking as new information presents itself.

GLOBAL LEADERS REP. ACCOUNT
TOP FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
EW	Edwards Lifesciences Corporation	3.17	23.79	0.64
MA	Mastercard Incorporated Class A	3.90	15.91	0.56
EL	Estee Lauder Companies Inc. Class A	3.35	17.99	0.55
BKNG	Booking Holdings Inc.	2.50	19.72	0.44
DB1	Deutsche Boerse AG	2.75	17.02	0.40

GLOBAL LEADERS REP. ACCOUNT
BOTTOM FIVE CONTRIBUTORS

CI	Cigna Corporation	2.59	-19.04	-0.58
FB	Facebook, Inc. Class A	2.63	-9.45	-0.23
SCHN	Schindler Holding AG	3.19	-5.81	-0.18
MMM	3M Company	2.24	-6.19	-0.15
SHW	Sherwin-Williams Company	3.06	-4.16	-0.11

- **Schindler** has pulled back on the combination of rising raw material prices (largely steel and copper) and slower new construction indications in China driven by tighter housing market and regulations.
- **3M** retracted as growth slowed slightly after the company's strong outperformance in 2017. Compounding the growth slowdown has been an increase in raw material prices.
- **Sherwin-Williams** and other housing related stocks were hurt by rising interest rates.

Portfolio Activity

- We initiated a position in **eBay** during the period. eBay is a global e-commerce leader that connects millions of buyers and sellers around the world. It is fundamentally turning around its e-commerce platform by investing in structured data, which will standardize product listings to better organize the platform and thus improve the consumer experience. The company has also decided to manage the payment process itself, as the current operating agreement with PayPal is soon expiring. We view these opportunities, along with eBay's advertisements and promoted listings, as great upside for the stock.
- We added **Wolters Kluwer** to the portfolio during the period. Wolters Kluwer engages in the provision of professional information services and solutions. Having undergone the transition away from traditional print publishing content toward a digital offering, Wolters Kluwer is now pursuing a solutions-based business model where products become ever more embedded in their customers' workflows, resulting in higher customer retention and organic growth.
- We eliminated **Cigna** from the portfolio after it announced its acquisition of Express Scripts. We had already passed on Express Scripts in our review process, and this acquisition changes our original thesis on Cigna. We view this as a defensive and expensive deal. With the stock down and our drawdown rule intact, we decided to exit.

GLOBAL LEADERS REP. ACCOUNT
PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
EBAY	eBay Inc.	Information Technology
WKL	Wolters Kluwer NV	Consumer Discretionary
DELETIONS		**SECTOR**
CI	Cigna Corporation	Health Care
SBUX	Starbucks Corporation	Consumer Discretionary

- We sold our remaining position in **Starbucks**. We have been taking capital away from Starbucks for over a year and after our extensive review determined that eBay has a better risk/reward profile resulting in our decision to swap the position in Starbucks for eBay.

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.

1. *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.
2. 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.
3. This composite was created in 2015.
4. 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.
5. 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.
6. 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.
7. 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.
8. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
10. Past performance does not indicate future results.
11. 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.

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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.