Large-Cap Growth

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

First Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	7.37	7.26	1.42
1 YR.	28.90	28.41	21.25
3 YR.	12.64	12.19	12.90
5 YR.	13.63	13.17	15.53
10 YR.	12.70	12.24	11.34
ITD (05/31/1996)	9.69	9.10	8.12

The composite performance shown above reflects the Brown Advisory Large-Cap Growth Institutional 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

	LARGE-CAP GROWTH REP. ACCT.	RUSSELL 1000® GROWTH INDEX
Weighted Avg. Market Cap.	$137.9 B	$234.3 B
Weighted Median Market Cap.	$51.6 B	$98.6 B
Earnings Growth (3-5 Yr. Est.)	16.5%	15.7%
P/E Ratio (FY2 Est.)	25.0x	18.1x
PEG Ratio	1.5x	1.2x
Portfolio Turnover (3-Yr.Avg.)	33.0%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Zoetis, Inc.	4.7
Amazon.com, Inc.	4.3
Visa, Inc.	4.0
Intuitive Surgical, Inc.	3.9
Salesforce.com, Inc.	3.7
PayPal Holdings, Inc	3.7
Intuit, Inc.	3.6
Adobe Systems, Inc.	3.6
Roper Technologies, Inc.	3.6
Estee Lauder Companies, Inc. Cl A	3.6
TOTAL	38.7

KENNETH STUZIN, CFA
Portfolio Manager

Review & Outlook

Volatility roared back in U.S. markets during the first quarter of 2018. Despite the fact that the global economy remains on solid footing, cross-currents of rising interest rates and concern over global trade policy led to a notable spike in market volatility. Our benchmark, the Russell 1000® Growth Index, finished the quarter with a modestly positive return, but only through a rally on the final day of the quarter. Our portfolio performed well during the quarter, posting its third-largest margin of quarterly outperformance since its inception.

Outperformance was fairly broad-based across sectors. Health care provided the largest positive contribution on both a relative and absolute basis, with all six of our health care holdings outperforming the benchmark. The portfolio is underweight biopharmaceutical stocks, and the pullback in that segment was a positive for our relative performance.

As always, we seek to separate signals from noise in our research, and that can be challenging in a very noisy, unending 24-hour news cycle. For example, **Facebook** and several of our consumer-oriented technology companies were under heavy scrutiny this quarter, be it for data privacy and security issues or, in the case of **Amazon**, the sheer dominance of its retail e-commerce business. The issues being discussed are highly complex; we continue to do our own research and use our external relationships to build our knowledge on the risks around data security, privacy and regulation.

With respect to Facebook specifically, we had already trimmed our position notably in advance of recent events, as it had appreciated materially last year and earlier this year. This was a normal outcome of our capital reallocation process; we manage our positions in Amazon, **Google** and any other company the same way. Each of these investment opportunities has specific merits and specific risks that we incorporate into our upside and downside analysis. We incorporate the potential impact that future regulation may have on margins or how a lack of trust may affect consumer engagement. These issues are not new and have long been incorporated in our investment discussions about these companies, alongside other issues that have not been in the news recently.

Periods of volatility are disconcerting, but we have been able to capitalize on these periods throughout our history. Since our inception, three of our five best relative quarters coincided with double-digit negative returns for our benchmark. Volatility often opens up opportunities for us to execute our investment process—either to add a new long-term holding that we previously deemed too expensive or to add to an existing holding at an attractive level. We cannot pretend to enjoy periods of acute volatility, but our process is designed to take advantage of these periods that are an inevitable byproduct of long-term market cycles.

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Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

Sector Diversification

- Despite strong performance, our weighting in technology decreased by approximately 200 basis points as we eliminated one technology holding and trimmed several others.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 1000® GROWTH INDEX (%)	DIFFERENCE (%)	LARGE-CAP GROWTH REP. ACCOUNT (%)	
	Q1 '18	Q1 '18	Q1 '18	Q4 '17	Q1 '17
Consumer Discretionary	15.72	18.63	-2.91	15.20	11.90
Consumer Staples	6.46	6.37	0.10	6.43	8.89
Energy	--	0.83	-0.83	--	--
Financials	--	3.49	-3.49	--	--
Health Care	19.32	12.51	6.81	17.70	16.50
Industrials	13.29	12.60	0.70	12.40	12.91
Information Technology	39.17	38.77	0.40	41.30	42.87
Materials	2.55	3.48	-0.93	3.44	3.78
Real Estate	3.47	2.40	1.08	3.53	3.16
Telecommunication Services	--	0.91	-0.91	--	--
Utilities	--	0.01	-0.01	--	--

Quarterly Attribution Detail by Sector

- Positive relative performance was fairly broad-based this quarter, with positive results in all sectors except financials.
- Health care was a strong positive contributor on both a relative and absolute basis for a second consecutive quarter. Weakness in biotechnology dragged on the sector, and our lack of exposure to biotech was therefore a boon for relative returns.
- Financial service stocks rallied alongside rising interest rates, creating a slight drag to the portfolio as we are underweight traditional financials.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT		RUSSELL 1000® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	15.20	9.75	18.53	4.35	-0.06	0.76	0.70
Consumer Staples	6.29	10.36	6.37	-4.81	0.04	0.97	1.01
Energy	--	--	0.83	-5.79	0.08	--	0.08
Financials	--	--	3.39	4.29	-0.07	--	-0.07
Health Care	18.47	14.26	12.84	-0.24	-0.07	2.52	2.44
Industrials	12.44	5.14	12.59	-0.04	0.03	0.64	0.67
Information Technology	40.77	5.16	38.62	3.35	0.11	0.63	0.74
Materials	3.46	-4.66	3.59	-5.64	0.02	0.03	0.05
Real Estate	3.36	4.63	2.31	-3.46	-0.03	0.28	0.25
Telecommunication Services	--	--	0.91	-8.13	0.12	--	0.12
Utilities	--	--	0.01	7.32	0.02	--	0.02
Total	**100.00**	**7.42**	**100.00**	**1.42**	**0.18**	**5.82**	**6.00**

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Quarterly Contribution to Return

- Despite negative publicity and the threat of future regulation, Amazon posted another quarter of surprising profitability due in large part to tax reform.
- **Adobe** closed out 2017 on a very strong note. The company has delivered excellent growth while expanding margins in recent periods, and the stock has reflected that excellent fundamental performance.
- **Zoetis** reported strong results for the most recent quarter. All four of its main segments are producing solid growth, which led to top- and bottom-line results above consensus expectations.
- **Estee Lauder** posted another quarter of organic growth that was much better than expected. Sales in China were robust, and its overall Asian travel business is performing quite well.
- **Intuitive Surgical** had a strong quarter, even as the stock pulled back from early gains. Some investors were disappointed that incremental investments weighed on the company's margins, but we believe that its investments in innovative technology can fuel future growth.
- Facebook came under intense scrutiny after reports of data misuse elevated uncertainty regarding user sentiment as well as potential regulatory action.
- **Charter Communications** gave back gains from earlier in the year as speculation about potential acquirers wavered.
- We started building a new position in **Sherwin-Williams** this quarter. The stock pulled back as the company's results were muddied by the ongoing integration of a recent acquisition.
- **Wabtec** did not execute as well as expected during a period in which rail volume in the U.S. recovered. We eliminated our position this quarter.
- Weakness in **Ecolab** stemmed more from general worries about the materials sector.

LARGE-CAP GROWTH REP. ACCOUNT
TOP FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
AMZN	Amazon.com, Inc.	4.46	23.76	0.91
ADBE	Adobe Systems Incorporated	3.82	23.31	0.83
ZTS	Zoetis, Inc. Class A	4.50	16.11	0.68
EL	Estee Lauder Companies Inc. Class A	3.51	17.99	0.60
ISRG	Intuitive Surgical, Inc.	4.03	13.12	0.52

LARGE-CAP GROWTH REP. ACCOUNT
BOTTOM FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
FB	Facebook, Inc. Class A	3.52	-9.45	-0.29
CHTR	Charter Communications, Inc. Class A	2.23	-7.36	-0.18
SHW	Sherwin-Williams Company	1.65	-8.01	-0.15
WAB	Westinghouse Air Brake Technologies Corporation	0.68	-11.46	-0.15
ECL	Ecolab Inc.	1.81	-2.36	-0.07

Portfolio Activity

- We sold our position in Ecolab and used the proceeds to purchase **Cintas**. Ecolab's growth has slowed, and we believe Cintas represents a better opportunity going forward. Cintas is the largest provider of uniform rental and facility services in North America. Cintas offers excellent service, consistently refreshes its product set and successfully cross-sells to new and existing customers. We see it as a strong leader in a fragmented industry with only a few large players. Its scale and management quality create a wide competitive moat, and we believe Cintas can grow more quickly than the industry, gain market share and generate above-average margins going forward.
- We added Sherwin-Williams, a leading manufacturer of paint and coating products with a history of generating consistent returns throughout market cycles. It has maintained and grown market share by earning strong loyalty with professional contractors through best-in-class customer service. This, alongside positive current trends in housing, supports our growth projections for the company going forward. Its acquisition of Valspar will, in our view, help diversify its end markets and further reduce cyclicality of results.
- We exited our small position in **Alphabet's Class A** share class as we sought to trim our overall position in the company.
- We exited our position in **NXP Semiconductors** after the stock rose on belief that Qualcomm will ultimately bid for the company; at its higher valuation level, we are no longer attracted to the company on a risk/reward basis.

LARGE-CAP GROWTH REP. ACCOUNT
PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
CTAS	Cintas Corporation	Industrials
SHW	Sherwin-Williams Company	Materials
DELETIONS		**SECTOR**
GOOGL	Alphabet Inc. Class A	Information Technology
ECL	Ecolab Inc.	Materials
NXPI	NXP Semiconductors NV	Information Technology
SBUX	Starbucks Corporation	Consumer Discretionary
WAB	Westinghouse Air Brake Technologies Corporation	Industrials

- We also eliminated **Starbucks** from the portfolio. Starbucks has performed exceptionally well over the last five years. But its U.S. growth is slowing, and while it is growing more quickly in Asia, that segment is still a small piece of Starbucks' overall business.
- Finally, we eliminated our position in Wabtec, as it has continued to fall short of expectations despite an improving backdrop for the freight rail industry. Its recent European transit acquisition has not played out as we expected, and we have lost confidence in the company's ability to navigate through this period.

Large-Cap Growth Institutional 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	31.7	31.2	30.2	11.5	10.5	119	0.3	10,005	33,155
2016	-2.3	-2.7	7.1	11.2	11.2	148	0.1	9,786	30,417
2015	7.8	7.4	5.7	10.2	10.7	168	0.3	12,583	43,746
2014	7.1	6.6	13.1	11.0	9.6	181	0.2	14,674	44,772
2013	30.3	29.7	33.5	15.5	12.2	212	0.3	15,740	40,739
2012	16.7	16.2	15.3	18.7	15.7	148	0.4	8,525	26,794
2011	0.4	0.0	2.6	19.7	17.8	102	0.3	5,622	19,962
2010	25.7	25.3	16.7	22.5	22.1	65	0.5	3,936	16,859
2009	53.3	53.0	37.2	20.0	19.7	41	0.6	1,191	11,058
2008	-35.7	-36.3	-38.4	16.5	16.4	32	0.3	120	8,547
2007	12.1	11.8	11.8	8.9	8.5	30	0.3	160	7,385

Brown Advisory claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory 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 Large-Cap Growth Institutional Composite includes all discretionary institutional portfolios (and carve-outs through 2009) invested in U.S. equities with strong earnings growth characteristics and large market capitalizations. This composite has been examined for the periods from January 1, 2006 through December 31, 2009. The examination reports are available upon request. The minimum account market value required for composite inclusion is $1.5 million.
3. Through 2009, cash was allocated to carve-outs based on a strategic asset allocation percentage. For calendar year end 2006-2009, the percent of the composite composed of carve-outs was 85%, 38%, 33% and 5% respectively
4. This composite was created in 1997.
5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns.
6. The benchmark is the Russell 1000® Growth Index. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 1000® Growth Index and Russell® are trademarks/service marks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
7. 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 $10 million; 0.65% on the next $15 million; 0.50% on the next $25 million; and 0.40% on the balance over $50 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.
8. For calendar year end 2006-2009 the percent of the composite composed of carve-outs was 69%, 62%, 56%,and 23% respectively.
9. 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.
10. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
11. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. Past performance does not indicate future results.
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Composite performance is based on the Brown Advisory Large-Cap Growth Composite and was obtained through FactSet®. All information and returns shown are as of 3/31/2018 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. This information is based on a representative Large-Cap Growth account and is provided as supplemental information. Account characteristics exclude 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 Large-Cap Growth account and is provided as supplemental information. Total portfolio return figures provided 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. 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. 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.

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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:** equals 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. **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. **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. **P/E / Growth Ratio, or PEG Ratio,** is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate. **Three-Year Annualized Portfolio Turnover** 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. Portfolio turnover is provided for a three-year trailing period. 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. 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 in the portfolio by the security's return on a daily basis, and geometrically linking the return to the reporting period.