

Second Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	6.56	6.47	5.76
YTD	14.41	14.20	7.25
1 YR.	29.90	29.42	22.51
3 YR.	14.66	14.22	14.98
5 YR.	14.78	14.31	16.36
10 YR.	13.37	12.93	11.83
ITD (05/31/1996)	9.89	9.31	8.30

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.	\$162.0 B	\$275.6 B
Weighted Median Market Cap.	\$54.2 B	\$105.9 B
Earnings Growth (3-5 Yr. Est.)	17.5%	16.7%
P/E Ratio (FY2 Est.)	25.6x	19.2x
PEG Ratio	1.5x	1.2x
Portfolio Turnover (3-Yr.Avg.)	33.3%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Amazon.com, Inc.	4.8
Zoetis, Inc.	4.3
Visa, Inc.	4.2
Intuit, Inc.	4.1
Intuitive Surgical, Inc.	4.0
Alphabet, Inc. Class C	3.9
Salesforce.com, Inc.	3.9
Adobe Systems, Inc.	3.7
Facebook, Inc.	3.6
PayPal Holdings, Inc	3.6
TOTAL	40.2



KENNETH STUZIN, CFA
Portfolio Manager

Review & Outlook

The U.S. equity markets were somewhat less volatile in the second quarter of 2018 as compared to the first. However, the consistent barrage of headlines portending global trade wars helped to keep the stock market in check. The portfolio outpaced its benchmark, the Russell 1000® Growth Index. The momentum propelling technology and consumer discretionary stocks carried over from the first quarter into the second, and these two sectors generated the bulk of the returns for the benchmark.

Technology was the best-performing sector in the portfolio from both an absolute and relative perspective for the quarter. **Facebook** mounted a sharp rebound as the expected fallout over data privacy seems to have been overblown, and revenue growth continues to outpace expectations. Facebook has demonstrated its resiliency and its value add to advertisers seeking digital exposure. Health care continues to be a notable positive contributor to the portfolio as well, with both **Intuitive Surgical** and **Dexcom** making meaningful contributions. Intuitive Surgical, the longest-held stock in the portfolio, beat expectations on just about every metric this quarter. This strong performance helps to justify retaining a stock that has more than doubled in price over the course of the last 18 months.

The U.S. has started to implement a set of tariffs and this has financial markets concerned about the prospects of a global trade war. While it is impossible to predict how an actual trade war would play out, it is unlikely to have a favorable impact on the overall stock market. The objective of these policies is to raise domestic employment opportunities, typically lower-skilled positions that are the most susceptible to offshore relocation. This makes certain labor-intensive industries more likely to be impacted. Industries involved in manufacturing, commodity and agricultural products will be caught squarely in the crosshairs. As it pertains to this portfolio, these types of businesses rarely meet the growth or quality criteria for our investment process. As a result, the portfolio has very little exposure to these particular industries. In the instances where we do have exposure, the goods are primarily produced in country and are therefore less susceptible to tariffs or retaliation. Additionally the estimated total revenue of companies in the portfolio derived directly from China is less than 10%. Technology has also been in the spotlight, but it has been focused primarily on semiconductor and networking equipment due to the security-sensitive nature of these industries. Here again the portfolio has very little exposure to these industries, in fact we sold our position in **NXP Semiconductors** in January as it was in the process of being acquired. The bulk of our technology holdings are enterprise software and service companies or consumer- and network-oriented business models, such as **Visa**, Facebook and **Electronic Arts**. We are not suggesting that these companies would be immune to protectionist policies or an all-out trade war, but we do not believe they are primary targets. [12](#)

Sector Diversification

- Our underweight to the collective consumer sectors increased modestly as we eliminated one consumer discretionary name from the portfolio and trimmed some capital from the consumer staples sector. Both consumer segments have performed well, and reallocation of capital is a natural part of the investment process.
- The bulk of the capital taken from the consumer sector was put to work in the technology sector. We added one new name and added to a few of our existing holdings. While our weighting to technology increased with the additional capital, we remain roughly in line with benchmark levels as the recent rebalancing pushed up the Index weight more than the portfolio.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 1000® GROWTH INDEX (%)	DIFFERENCE (%)	LARGE-CAP GROWTH REP. ACCOUNT (%)	
	Q2 '18	Q2 '18	Q2 '18	Q1 '18	Q2 '17
Consumer Discretionary	13.97	17.96	-3.99	15.72	14.22
Consumer Staples	5.59	5.72	-0.13	6.46	6.21
Energy	--	1.01	-1.01	--	--
Financials	--	4.44	-4.44	--	--
Health Care	19.21	13.37	5.84	19.32	18.56
Industrials	12.88	11.76	1.12	13.29	11.68
Information Technology	41.73	41.63	0.09	39.17	42.24
Materials	3.16	1.80	1.36	2.55	3.77
Real Estate	3.47	2.16	1.31	3.47	3.33
Telecommunication Services	--	0.15	-0.15	--	--
Utilities	--	--	--	--	--

Quarterly Attribution Detail by Sector

- The information technology and health care sectors were the biggest drivers of outperformance in the second quarter.
- Our consumer discretionary stocks performed reasonably well as a group, but it was the best-performing sector in the benchmark for the quarter, creating a bit of a drag on relative performance.
- Real estate was a source of weakness as **SBAC** pulled back. SBAC owns and leases cellphone towers, but it is technically a REIT and thus is categorized under the real estate sector.

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	14.75	6.51	18.80	9.66	-0.15	-0.41	-0.57
Consumer Staples	5.85	2.99	5.96	0.61	0.02	0.17	0.19
Energy	--	--	0.87	9.64	-0.03	--	-0.03
Financials	--	--	3.51	-0.08	0.22	--	0.22
Health Care	19.43	7.76	12.54	5.22	-0.04	0.49	0.46
Industrials	13.19	-0.50	12.22	-2.82	-0.07	0.29	0.23
Information Technology	40.48	10.76	39.71	8.61	0.04	0.75	0.79
Materials	2.87	4.18	3.27	2.93	0.03	0.06	0.08
Real Estate	3.43	-3.39	2.28	5.06	-0.02	-0.31	-0.32
Telecommunication Services	--	--	0.83	3.68	0.03	--	0.03
Utilities	--	--	0.01	1.70	0.01	--	0.01
Total	100.00	6.84	100.00	5.76	0.04	1.05	1.09

Quarterly Contribution to Return

- **Amazon** expanded margins and is demonstrating its profit-generating potential to investors.
- Facebook was in the headlines and engaged with regulatory issues. However, this has yet to meaningfully impact its underlying business model, and the stock has rebounded back to all-time highs.
- **Intuit** exceeded expectations for the most recent quarter as it gained market share in the consumer tax prep market while raising prices at the same time.
- **Salesforce** posted exceptional organic revenue growth, helping to disprove the bear case on the stock, which contends that its best days of growth are behind it.
- Intuitive Surgical placed more new systems than expected, grew revenues faster than expected and procedure growth was better than expected—a highly positive quarter all around.
- Despite strong top-line performance, **Genpact** missed street expectations for margins. Investors are extrapolating that this will continue and sold down the stock.
- **Charter Communications** underperformed subscriber growth expectations this quarter, repeating a pattern that led us to eliminate it from the portfolio.
- SBAC Communications (SBAC) pulled back on news that T-Mobile would acquire Sprint, effectively consolidating two of its large customers. We expect this would modestly impact SBAC, but we believe that the long-term growth drivers far outweigh the negative ramifications of a merger should it be consummated.
- **Estee Lauder** took a small breather this quarter after an impressive run over the last 18 months.
- Concern that **A.O. Smith**, which sells water heaters in China, might be impacted by a trade war sent the stock lower.

LARGE-CAP GROWTH REP.ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
AMZN	Amazon.com, Inc.	4.74	17.44	0.78
FB	Facebook, Inc. Class A	3.58	21.61	0.72
INTU	Intuit Inc.	4.06	18.13	0.71
CRM	Salesforce.com, Inc.	4.00	17.28	0.66
ISRG	Intuitive Surgical, Inc.	4.27	15.90	0.65
LARGE-CAP GROWTH REP.ACCOUNT BOTTOM FIVE CONTRIBUTORS				
G	Genpact Limited	2.61	-9.34	-0.26
CHTR	Charter Communications, Inc. Class A	0.89	-13.15	-0.22
SBAC	SBA Communications Corp. Class A	3.43	-3.39	-0.15
EL	Estee Lauder Companies Inc. Class A	2.98	-4.46	-0.14
AOS	A. O. Smith Corporation	2.07	-6.71	-0.13

Portfolio Activity

- We initiated a new position in the software company **Autodesk** at the end of the quarter. Autodesk creates architectural and manufacturing computer-aided design software. Autodesk is early on in the transition to a subscription-based business model, which many software companies such as Adobe have already undertaken. We believe the upside in the stock is very compelling as it completes this transition and simultaneously takes advantage of several other opportunities, such as construction management.
- We eliminated our position in Charter Communications this quarter as our investment thesis became impaired. While the company beat revenue expectations, it has not generated the requisite subscriber growth metrics that would support our long-term profit growth expectations for the company.

LARGE-CAP GROWTH REP.ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
ADSK	Autodesk, Inc.	Information Technology
DELETIONS		SECTOR
CHTR	Charter Communications, Inc. Class A	Consumer Discretionary

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.
13. 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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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 06/30/2018 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.