

Third Quarter 2018

### COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	7.98	7.88	9.17
YTD	23.55	23.20	17.09
1 YR.	33.61	33.11	26.30
3 YR.	19.64	19.18	20.55
5 YR.	14.74	14.27	16.58
10 YR.	15.09	14.65	14.31
ITD (05/31/1996)	10.15	9.57	8.63

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.



**KENNETH STUZIN, CFA**  
*Portfolio Manager*

## Review & Outlook

Large-cap growth stocks led the U.S. markets higher in the third quarter. Investors shrugged off concerns of a trade war, rising interest rates and reduced monetary stimulus, bidding up stock prices of some of the biggest and most recognizable U.S. companies. Clearly, the recent tax cuts have helped drive economic activity and boost sentiment. It seems as though investors have arrived at the conclusion that the preponderance of economic indicators are signaling continued expansion and that it is less likely that this is the last inning of the cycle. Conversely, concerns about emerging market economies have increased, and companies with exposure to emerging markets, especially China, did not generally fare as well this quarter.

**Dexcom** was a positive contributor to the portfolio this quarter and has been one of our best performers year to date. Dexcom manufactures an industry-leading continuous glucose monitoring (CGM) device, which is used by diabetics to monitor their blood sugar levels in real time. A series of rapid succession approvals by the FDA and Medicare reimbursement approval for Dexcom and its competitors served to validate the importance of CGM in the treatment and management of diabetes. These events, which have unfolded over the last year or so, have created volatility and suppressed Dexcom's stock price as the market attempts to handicap the competitive dynamics. Dexcom has consistently maintained a technological advantage, but its two closest competitors, Medtronic and Abbott, are larger companies, both with sizable marketing resources. Dexcom has been a beneficiary of additional spending, expanding the awareness for CGM and for Dexcom's device. Revenue growth was better than expected for the most recent quarter, and we believe that continued innovation and further market penetration will continue to drive revenue growth in the mid-20% range going forward.

Dexcom was not the lone health care contributor this quarter. **Intuitive Surgical**, the robotic surgical device company, has continued to exceed expectations. Its innovative culture has helped make Intuitive Surgical one of the longest held stocks in the portfolio. Despite its near monopoly position in a rapidly growing market, the company continues to invest in its platform, furthering its competitive advantages and creating a virtuous cycle of growth.

As previously mentioned, companies with emerging markets exposure have been pressured as of late, driven primarily by expectations of a global trade war, leading to an economic slowdown in some of the largest emerging economies, such as China. **Alibaba**, the Chinese version of **Amazon**, is one of our holdings that has experienced weakness due to these fears. While some of the circumstances are different, the situation with Alibaba is quite similar to that of our initial purchase of Amazon several years ago. Alibaba remains a relatively small position in the portfolio, partly because of the elevated risk profile. However, we believe that the potential for a slowdown in China is currently reflected in the stock price, and the long-term growth potential remains intact, creating a very compelling risk/reward profile. [B](#)

### REP. ACCOUNT CHARACTERISTICS

	LARGE-CAP GROWTH REP. ACCT.	RUSSELL 1000® GROWTH INDEX
Weighted Avg. Market Cap.	\$164.6 B	\$320.1 B
Weighted Median Market Cap.	\$58.8 B	\$115.3 B
Earnings Growth (3-5 Yr. Est.)	18.6%	17.4%
P/E Ratio (FY2 Est.)	26.4x	20.6x
PEG Ratio	1.4x	1.2x
Portfolio Turnover (3-Yr. Avg.)	32.7%	--

### REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Amazon.com, Inc.	4.8
Visa, Inc.	4.4
Zoetis, Inc.	4.3
Intuitive Surgical, Inc.	4.2
Intuit, Inc.	4.0
Salesforce.com, Inc.	3.6
Alphabet, Inc. Class C	3.6
PayPal Holdings, Inc.	3.5
Thermo Fisher Scientific, Inc.	3.5
Roper Technologies, Inc.	3.3
<b>TOTAL</b>	<b>39.2</b>

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

## Sector Diversification

- The Global Industry Classification System (GICS) undertook a sector reorganization primarily impacting the technology sector, which had risen to just over 42% of the Russell 1000® Growth benchmark by the end of the second quarter. Several internet, entertainment and software-related companies have shifted into the telecommunications sector, and the name has changed to communication services. The resulting exposure of the portfolio is a modest underweight to the new communication services sector and the reorganized information technology sector.
- In light of strong performance, the weighting to health care increased about 200 basis points.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 1000® GROWTH INDEX (%)	DIFFERENCE (%)	LARGE-CAP GROWTH REP. ACCOUNT (%)	
	Q3 '18	Q3 '18	Q3 '18	Q2 '18	Q3 '17
Communication Services	10.05	12.01	-1.96	11.12	12.66
Consumer Discretionary	13.36	15.38	-2.02	13.97	11.62
Consumer Staples	5.55	5.45	0.10	5.59	6.03
Energy	--	0.90	-0.90	--	--
Financials	--	4.18	-4.18	--	--
Health Care	21.19	13.79	7.40	19.21	17.95
Industrials	12.88	12.00	0.89	12.88	12.15
Information Technology	30.43	32.65	-2.22	30.61	32.66
Materials	3.41	1.65	1.76	3.16	3.57
Real Estate	3.12	1.99	1.13	3.47	3.37
Utilities	--	--	--	--	--

## Quarterly Attribution Detail by Sector

- Health care continues to be a strong positive contributor and was the best performing sector in the portfolio this quarter. For example, Dexcom, Intuitive Surgical and **Edwards Lifesciences** were up sharply, driven by strong fundamental results.
- Despite the strong absolute performance from our technology holdings, the sector was a drag on relative performance for the quarter. Technology was the biggest contributor to the return of the benchmark by a wide margin, driven in large part by mega-caps Apple and Microsoft.

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 (%)
Communication Services	11.03	-7.46	12.57	-1.00	0.10	-0.77	-0.67
Consumer Discretionary	13.61	6.29	15.21	10.26	-0.02	-0.54	-0.56
Consumer Staples	5.47	7.83	5.55	6.32	--	0.07	0.07
Energy	--	--	0.92	-4.64	0.13	--	0.13
Financials	--	--	4.36	3.21	0.25	--	0.25
Health Care	20.19	19.39	13.62	12.82	0.22	1.20	1.41
Industrials	13.38	4.03	11.96	10.66	0.03	-0.84	-0.81
Information Technology	29.79	10.52	32.03	13.75	-0.10	-0.89	-0.99
Materials	3.35	11.91	1.72	-0.08	-0.14	0.37	0.23
Real Estate	3.19	-2.72	2.08	0.18	-0.11	-0.12	-0.22
Utilities	--	--	--	--	--	--	--
<b>Total</b>	<b>100.00</b>	<b>8.00</b>	<b>100.00</b>	<b>9.17</b>	<b>0.35</b>	<b>-1.52</b>	<b>-1.17</b>

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## Quarterly Contribution to Return

- Dexcom climbed over 50% this quarter after handily beating revenue growth expectations for the most recent quarter. CGM is rapidly becoming the standard of care for diabetics, and Dexcom is positioned well for the opportunity.
- Amazon surpassed profit expectations on the back of strong growth in North America and healthy margin expansion.
- Procedure growth continues to outpace expectations for Intuitive Surgical's da Vinci robotic surgical system, driven by healthy adoption trends in the general surgery category.
- End-market demand for **Salesforce's** products remains strong, and the company raised its full-year operating targets. We believe that the healthy end markets and recent acquisitions are helping to elongate its runway for growth.
- The integration of **Visa's** European segment remains on track and looks to be more accretive than initially expected, in our view.
- **Facebook** continues to be plagued by data privacy issues, and user engagement was softer than expected, particularly in Europe, as the new privacy rules took effect.
- **Electronic Arts** announced a delay in the launch of the new version of its popular game Battlefield and subsequently lowered guidance for the year. While we have not been thrilled with EA's execution as of late, the company has demonstrated the ability to bounce back from these setbacks.
- Weakness in Alibaba and **A.O. Smith** can be attributed to concerns about trade wars and an economic slowdown in China.
- We began building a position in **NXP Semiconductors** after the attempted acquisition fell through and the stock traded off.

LARGE-CAP GROWTH REP.ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
DXCM	Dexcom, Inc.	3.00	50.60	1.28
AMZN	Amazon.com, Inc.	4.87	17.84	0.83
ISRG	Intuitive Surgical, Inc.	4.21	19.96	0.80
CRM	Salesforce.com, inc.	3.98	16.59	0.63
V	Visa Inc. Class A	4.40	13.49	0.57
LARGE-CAP GROWTH REP.ACCOUNT BOTTOM FIVE CONTRIBUTORS				
FB	Facebook, Inc. Class A	3.70	-15.37	-0.68
EA	Electronic Arts Inc.	3.28	-14.56	-0.52
BABA	Alibaba Group Holding Ltd. Sponsored ADR	2.96	-11.19	-0.38
AOS	A. O. Smith Corporation	2.01	-9.49	-0.19
NXPI	NXP Semiconductors NV	0.17	-4.90	-0.13

## Portfolio Activity

- We reinitiated a position in NXP Semiconductors this quarter, after selling the stock earlier in the year. The company was in the process of being acquired by Qualcomm, and the stock traded up to our estimate of a fair price for the business, creating an unfavorable risk/reward profile. Subsequently, the deal was broken due to regulatory issues, and the stock sold off, creating a very attractive price in which to re-engage. The original management team is very much intact, and NXP remains a best-in-breed mixed signal semiconductor company with market-leading products in secular growth end-markets, such as automotive and industrial.
- We completed the sale of **ANSYS**, which was sold in order to fund our new position in **Autodesk**. Autodesk was initiated in the second quarter.

LARGE-CAP GROWTH REP.ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
NXPI	NXP Semiconductors NV	Information Technology
DELETIONS		SECTOR
ANSS	ANSYS, Inc.	Information Technology

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 09/30/2018 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.