Large-Cap Growth

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

Fourth Quarter 2017

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	8.15	8.05	7.86
1 YR.	31.66	31.17	30.21
3 YR.	11.52	11.07	13.79
5 YR.	14.12	13.64	17.33
10 YR.	10.88	10.41	10.00
ITD (01/06/1996)	9.44	8.86	8.14

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.	$131.7 B	$227.4 B
Weighted Median Market Cap.	$46.9 B	$93.6 B
Earnings Growth (3-5 Yr. Est.)	16.4%	14.8%
P/E Ratio (FY2 Est.)	26.8x	20.7x
PEG Ratio	1.6x	1.4x
Portfolio Turnover (3 Yr. Avg.)	33.3%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Alphabet. Inc. (Class A & C)*	4.3
Visa, Inc.	4.2
Zoetis, Inc.	4.1
Amazon.com, Inc.	3.9
PayPal Holdings, Inc	3.8
Facebook, Inc.	3.7
Amphenol Corp. Cl A	3.6
Intuitive Surgical, Inc.	3.6
Roper Technologies, Inc.	3.5
Adobe Systems, Inc.	3.5
TOTAL	**38.2**

*Alphabet Inc. represents a 0.8% holding position in class A and 3.5% in class C shares of the stock.

KENNETH STUZIN, CFA
Portfolio Manager

Review & Outlook

Relative and absolute performance for the Large-Cap Growth strategy improved in 2017 as the complexion of the market was much more conducive to our investment approach relative to 2016. The primary factors driving stocks shifted back to fundamentals and growth prospects (as opposed to the macro factors that heavily drove the market in recent years). This was a welcome positive for the portfolio, as many of our holdings produced strong results, and their stocks have responded positively. Stock price correlations have come down, creating a greater opportunity set and an improved environment for stock picking. As such, we have been fairly active this year, bringing 11 new positions into the portfolio and selling eight, ending the year with 34 positions.

The consumer sector was volatile in 2017 due to the market's preoccupation with handicapping winners and losers in a world rapidly adapting to e-commerce. Following **Amazon's** announcement that it would acquire Whole Foods, investors shined a spotlight on a large number of business models that are potentially at risk for disruption from online purveyors. Our team has been focused on this trend for several years, and we have tried to be thoughtful in allocating capital to companies that are both obvious beneficiaries, such as **Alibaba** and Amazon, as well as less obvious ones, like **Estee Lauder**. Historically, Estee Lauder had a brick-and-mortar business model, but in recent years, it made major investments in distribution capabilities to become an "omni-channel" business model. These efforts are driving impressive results, and the market is starting to recognize this fact. Unfortunately, we did not get all of the changing dynamics in the consumer sector right. We believe that online travel is a very attractive segment that benefits from a number of secular trends. These trends were part of our overall investment thesis for **TripAdvisor**. Our patience with TripAdvisor was based on its successful business transition that would ultimately monetize its considerable volume of web traffic at a much higher rate. While we continue to believe in the value of TripAdvisor's large active user base and rich website content, we have lost confidence in management's ability to convert those assets into revenue and earnings growth. As such we sold our position in the company during the fourth quarter. However, earlier in the year, we initiated a complementary position in **Priceline**, a larger, more mature business model within the same segment.

Health care is another sector where we had a mix of winners and losers, and the market offered up several opportunities to tweak our roster of health care holdings. During the year, we added three new positions (**Edwards Lifesciences**, **Thermo Fisher Scientific** and **Zoetis**) and eliminated our positions in **DaVita** and **Alexion**. Longtime holding **Intuitive Surgical** was a big contributor to performance this year—and was one of our best performers over the last several years. Intuitive Surgical is the pre-eminent manufacturer of robotic surgical systems, and the company has led the way to help make robotic, minimally invasive surgery commonplace and the de facto standard of care for many procedures. Despite healthy skepticism about new technology in the health care market, Intuitive's da Vinci system has won over many converts as it has proven to be safer than unassisted surgery and, due to lower complication rates, ultimately more cost-efficient.

On the negative side, our investment in biotechnology company Alexion came to an abrupt halt in the second quarter. Alexion endured a series of management changes at the end of 2016; at the time, we felt that these would be a welcome upgrade to the quality of the management team. When it was announced in June that Alexion's recently hired CFO would be leaving the company, we exited our position in the stock. As external investors, we are not privy to boardroom discussions, and an unexplained (and abrupt) departure of a key executive is more often than not a good reason to sell a stock. Another health care holding that experienced some volatility this year is **Dexcom**, a leader in continuous glucose monitoring (CGM) devices. Several competitive announcements rattled the stock this year; Medtronic introduced an updated version of its product, and another competing device from Abbott won FDA approval. While these events were anticipated, the stock reacted dramatically to the headlines—an overreaction, in our view. We believe that the global market for CGM is very large and significantly underpenetrated, and while these announcements created short-term uncertainty for DexCom, our long-term thesis remains very much intact. The company still has a meaningful technology advantage and a market-leading position over both Abbott and Medtronic for CGM devices, in our view.

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The portfolio generated absolute return in excess of 30% in 2017; that has only happened in three calendar years over our 20-year history. Geopolitical dynamics continue to dominate the headlines, but fortunately they were not the primary drivers of stock prices this year. It was refreshing to see fundamentally sound companies rewarded for solid execution and delivering results for shareholders. We are encouraged by the rebound in absolute and relative results for the portfolio, but we will never take performance for granted. We strive to execute our investment process each and every day; a process that favors companies with sustainable growth over all other characteristics. While this characteristic is not always in favor, it is an attribute that has proven to be a good indicator of long-term performance.

Sector Diversification

- The portfolio remains well-diversified across economic sectors.
- Our underweight in the consumer discretionary sector narrowed from ~7% at the start of the year to ~3% by the end. We added four positions throughout the year within the sector while eliminating two others, and the benchmark's weighting fell by about 2.6%. Our additions in consumer discretionary were also funded by a reduction in consumer staples, where we eliminated one holding and reduced another. Consumer staples went from a modest overweight to modest underweight.
- Our overweight in technology was notably reduced as well, through a combination of performance and activity. Portfolio exposure dropped by ~2%, while the benchmark weighting rose by ~6%.
- Our health care weighting also increased during the year with the addition of three names and elimination of two.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 1000® GROWTH INDEX (%)	DIFFERENCE (%)	LARGE-CAP GROWTH REP. ACCOUNT (%)	
	Q4 '17	Q4 '17	Q4 '17	Q3 '17	Q4 '16
Consumer Discretionary	15.20	18.09	-2.89	15.53	13.77
Consumer Staples	6.43	6.82	-0.38	6.03	10.27
Energy	--	0.88	-0.88	--	--
Financials	--	3.39	-3.39	--	--
Health Care	17.70	12.82	4.88	17.95	15.65
Industrials	12.40	12.78	-0.38	12.15	10.34
Information Technology	41.30	37.95	3.34	41.40	43.17
Materials	3.44	3.74	-0.31	3.57	3.85
Real Estate	3.53	2.52	1.01	3.37	2.95
Telecommunication Services	--	0.99	-0.99	--	--
Utilities	--	0.01	-0.01	--	--

Quarterly Attribution Detail by Sector

- Health care and technology were both meaningful positive contributors during the fourth quarter. All but one of our holdings in these sectors produced a positive return.
- As tax reform legislation progressed in late November and December, sectors and stocks expected to benefit from lower corporate rates rallied sharply. Industrials and consumer discretionary were big contributors to the benchmark return in the fourth quarter. The telecom sector, which was down more than 11% for 2017 through mid-November, snapped back and ended in positive territory for the year.
- Consumer discretionary created the biggest drag on relative performance for the quarter. The online travel segment was weak, with Priceline and TripAdvisor both selling off. TripAdvisor was especially weak; after it reported a tough quarter, we eliminated this position.

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	15.37	2.59	17.74	10.83	-0.10	-1.17	-1.28
Consumer Staples	6.06	16.44	6.66	9.45	0.01	0.36	0.37
Energy	--	--	0.86	6.00	0.02	--	0.02
Financials	--	--	3.39	6.85	0.03	--	0.03
Health Care	17.91	7.67	13.27	0.83	-0.30	1.20	0.89
Industrials	12.14	4.94	12.45	10.08	--	-0.58	-0.58
Information Technology	41.54	10.60	38.36	8.55	0.06	0.79	0.85
Materials	3.48	4.65	3.77	5.60	--	-0.04	-0.04
Real Estate	3.50	13.41	2.54	5.64	-0.03	0.25	0.22
Telecommunication Services	--	--	0.94	7.67	--	--	--
Utilities	--	--	0.01	11.43	--	--	--
Total	**100.00**	**8.35**	**100.00**	**7.86**	**-0.31**	**0.80**	**0.49**

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Quarterly Contribution to Return

- Amazon reported earnings well ahead of expectations this quarter. Analysts have a difficult time coming up with earnings estimates for Amazon given the lack of consistency year over year, but it was an impressive quarter nonetheless.
- **Adobe** released forward guidance for next year at its annual conference. The guidance was well ahead of expectations as the company continues to innovate across its product platform.
- **PayPal** produced an attractive quarter with nearly all metrics accelerating. It also announced the sale of its receivables book to Synchrony, which frees up the balance sheet and assuages investor concerns over credit exposure.
- **FLEETCOR**, which has struggled with perception in the past, provided a much clearer picture of its growth trajectory to investors this quarter. It also signed two large deals.
- Estee Lauder continues to post strong results, beating street estimates on both the top and bottom lines for the most recent quarter.
- TripAdvisor missed the mark on several key metrics this quarter as industry dynamics shifted unfavorably. Priceline pulled back spending on TripAdvisor's site, another indication of issues at TripAdvisor. We exited our position.
- **Charter Communications** gave back its gains from last quarter after reporting subscriber growth that was weaker than expected. This provided fuel for the bear case on cable providers.
- Both Priceline and TripAdvisor suffered from weakness across the online travel segment this quarter. We believe that shifting industry dynamics should ultimately benefit Priceline over its competitors.
- We started building a new position in **Electronic Arts** on weakness this quarter. Although it was down only modestly after we started buying it, that was enough to make the bottom-five list during a strong quarter for the market.
- Alibaba's stock has been on an impressive run this year. While nothing fundamentally has changed, and the stock was positive this quarter, it is not surprising that investors took some profits off the table.

LARGE-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
AMZN	Amazon.com, Inc.	3.86	21.65	0.77
ADBE	Adobe Systems Incorporated	3.95	17.47	0.71
PYPL	PayPal Holdings Inc	4.20	14.98	0.66
FLT	FLEETCOR Technologies, Inc.	2.82	24.33	0.63
EL	Estee Lauder Companies Inc. Class A	3.38	18.35	0.58
ZTS	Zoetis, Inc. Class A	3.86	21.65	0.49
LARGE-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
TRIP	TripAdvisor, Inc.	0.84	-24.13	-0.32
CHTR	Charter Communications, Inc. Class A	2.07	-7.56	-0.18
PCLN	Priceline Group Inc	1.87	-5.08	-0.11
EA	Electronic Arts Inc.	0.59	-0.41	-0.01
BABA	Alibaba Group Holding Ltd. Sponsored ADR	2.20	-0.16	0.00

Portfolio Activity

- We initiated a new position in Electronic Arts during the fourth quarter. Electronic Arts is one of the world's leading video game publishers. The video game industry is experiencing secular growth as well as a structural profitability tailwind as consumers purchase a greater proportion of console video game services digitally. We favor Electronic Arts over other video gaming companies due to the stability of its portfolio, principally from sports franchises such as FIFA, and the quality and popularity of its leading titles. We also feel that ample opportunity remains to improve monetization of gamers' playing time, which is much lower than other forms of entertainment. We started building our position after negative press surrounding a product launch led to a pullback in the stock.
- We eliminated our position in TripAdvisor this quarter. We had been very patient as it worked to transition its business model and monetize its considerable web traffic at a much higher rate. While we continue to believe in the significant value of the millions of monthly active users and related site content, we have very simply lost confidence in management's ability to convert its content and viewership into revenue and earnings growth.

LARGE-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
EA	Electronic Arts Inc.	Information Technology
DELETIONS		SECTOR
TRIP	TripAdvisor, Inc.	Consumer Discretionary

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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)
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, 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.

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.
4. This composite was created in 1997.
5. 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.
6. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. Prior to 2004 the dispersion of annual returns is measured by the range between the high and low portfolio returns.
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 85%, 38%, 33% and 5% 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 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. 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.