

Large-Cap Growth

QUARTERLY STRATEGY UPDATE

Third Quarter 2017

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	4.99	4.89	5.90
YTD	21.74	21.39	20.72
1 YR.	16.12	15.67	21.94
3 YR.	10.44	10.00	12.69
5 YR.	12.20	11.74	15.26
10 YR.	9.67	9.22	9.08
ITD (01/06/1996)	9.16	8.57	7.86

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

U.S. equity markets continued to forge higher in the third quarter pushing the year-to-date return for the Brown Advisory Large-Cap Growth Strategy over the 20% mark. The strategy continues to outperform its benchmark, the Russell 1000® Growth Index, on an absolute and relative basis; however, we did relinquish some of our lead in the waning days of the quarter. Recent rhetoric surrounding tax policy gave a lift to the vestiges of the Trump trade, turning what has been a macro tailwind so far this year into a slight headwind for the quarter. That said, the primary driver of performance for the quarter was the idiosyncrasies of a handful of our holdings—both good and bad.

Despite none of our consumer holdings showing up in the top five individual contributors this quarter, both the discretionary and staples were, from a sector perspective, the biggest relative contributors. Consumer stocks generally continue to be volatile as the market attempts to handicap winners and losers in a world that is rapidly adapting to ecommerce technology. We have analyzed, discussed and debated this phenomenon amongst our investment team for several years. All along we have tried to be thoughtful in allocating capital to business models that are both obvious beneficiaries, such as **Alibaba** and **Amazon**, and those less obvious, such as **Estee Lauder**. Estee Lauder, throughout its history was the quintessential brick and mortar business model; however, they made significant investments in distribution capabilities becoming a true omnichannel business. It has become clear that these efforts are driving their impressive results and the market is starting to recognize this.

Health care was the most challenging sector this quarter. This was driven in large part by the late-quarter selloff of **Dexcom** after Abbott Laboratories received FDA approval for a competing glucose monitoring device called Libre. Having already received approval in Europe, we expected that Abbott would ultimately get approval for the device in the U.S.; however, the announcement came sooner than expected and came with approval for insulin dosing—which only Dexcom's device had previously. The dosing component did come as a surprise to the market given the limitations of the Libre, but the expediency of the approval underscores the FDA's keen focus on diabetes treatments. We believe this will benefit Dexcom as they recently filed for approval for their next generation sensor. This new competitive dynamic will undoubtedly impact Dexcom going forward, but competition was not unexpected by the company's management team. Glucose monitoring has a clear clinical and financial benefit to patients and health care systems worldwide. What we see as a massive long-term opportunity remains ahead for both Type 1 and Type 2 diabetes populations. As such our long-term thesis for Dexcom remains fully intact as we believe that they still maintain a significant technology advantage and market-leading position for continuous glucose monitoring over both Abbott and Medtronic. We took the opportunity to add to our position on this weakness. **B**

REP. ACCOUNT CHARACTERISTICS

	LARGE-CAP GROWTH REP. ACCT.	RUSSELL 1000® GROWTH INDEX
Weighted Avg. Market Cap.	\$125.2 B	\$208.0 B
Weighted Median Market Cap.	\$39.7 B	\$88.9 B
Earnings Growth (3-5 Yr. Est.)	17.0%	15.0%
P/E Ratio (FY2 Est.)	25.7x	20.0x
PEG Ratio	1.5x	1.3x
Portfolio Turnover (3 Yr. Avg.)	33.2%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Visa, Inc.	4.7
Alphabet, Inc. (Class A & C)*	4.5
PayPal Holdings, Inc	4.1
Facebook, Inc.	4.0
Adobe Systems, Inc.	4.0
Amphenol Corp. Cl A	4.0
Intuitive Surgical, Inc.	3.9
Zoetis, Inc.	3.7
Roper Technologies, Inc.	3.6
Danaher Corp.	3.5
TOTAL	39.8

*Alphabet Inc. represents a 1.0% holding position in class A and 3.5% in class C shares of the stock.

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

Sector Diversification

- Overall sector allocations did not change materially over the course of the quarter.
- Our underweight to the consumer discretionary sector has continued to decrease over the course of the year. We have added several consumer discretionary positions this year including one this quarter. The underweight to the sector has gone from nearly 7% at the beginning of 2017 to just over 2% at the end of the third quarter.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 1000® GROWTH INDEX (%)	DIFFERENCE (%)	LARGE-CAP GROWTH REP. ACCOUNT (%)	
	Q3 '17	Q3 '17	Q3 '17	Q2 '17	Q3 '16
Consumer Discretionary	15.53	17.68	-2.14	14.22	14.73
Consumer Staples	6.03	6.74	-0.71	6.21	10.34
Energy	--	0.90	-0.90	--	--
Financials	--	3.42	-3.42	--	--
Health Care	17.95	13.76	4.19	18.56	15.71
Industrials	12.15	12.49	-0.33	11.68	7.48
Information Technology	41.40	37.62	3.78	42.24	45.50
Materials	3.57	3.82	-0.25	3.77	3.56
Real Estate	3.37	2.56	0.81	3.33	2.68
Telecommunication Services	--	0.99	-0.99	--	--
Utilities	--	0.01	-0.01	--	--

Quarterly Attribution Detail by Sector

- Health care was the biggest detractor in the third quarter. Two of our health care holdings pulled back after posting strong starts to the year. Dexcom was the biggest detractor after a competitor received FDA approval for their device.
- Both consumer sectors—discretionary and staple—were additive to relative performance this quarter. The consumer space remains fairly volatile as the market attempts to handicap which business models will succeed as ecommerce becomes a more important part of the global consumer landscape. Estee Lauder and Alibaba were top contributors this quarter.

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	2.07	18.05	0.96	0.13	0.17	0.31
Consumer Staples	5.88	8.33	7.10	-2.49	0.11	0.62	0.73
Energy	--	--	0.80	6.35	-0.01	--	-0.01
Financials	--	--	3.35	7.52	-0.05	--	-0.05
Health Care	18.13	-0.63	13.67	6.72	0.03	-1.32	-1.29
Industrials	11.54	2.36	12.24	7.54	-0.01	-0.59	-0.60
Information Technology	42.00	9.19	37.39	9.36	0.20	-0.09	0.10
Materials	3.68	-2.84	3.80	4.07	--	-0.26	-0.26
Real Estate	3.40	6.78	2.61	3.18	-0.02	0.12	0.10
Telecommunication Services	--	--	0.97	11.15	-0.05	--	-0.05
Utilities	--	--	0.01	48.79	-0.01	--	-0.01
Total	100.00	4.88	100.00	5.90	0.33	-1.35	-1.02

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

Quarterly Contribution to Return

- “Fintech” stocks continued to outperform in the third quarter. Both **PayPal** and **Visa** are positioned well to capitalize on the shift to e-commerce. These companies are technology leaders and the trend to replace traditional forms of payment, such as cash to digital, is accelerating.
- **Facebook** reported impressive top-line growth, but it was lower than expected expenses that surprised the market and helped to drive up the stock this quarter.
- **Amphenol**, which manufactures high-end electrical connectors, tends to track alongside industrials as opposed to the technology sector—where it is officially categorized. In fact, the automotive, defense and industrial end markets all accelerated pushing the stock higher.
- **Intuitive Surgical** posted another strong quarter and raised expectations for future procedure growth. Their robotic surgical system has now become a platform for continuous innovation driving worldwide growth.
- **Dexcom** was the biggest portfolio detractor this quarter. After a very strong start to the year, the stock sold off on the news that Abbott received approval for a competing product. The announcement came earlier than expected, creating near-term uncertainty in the glucose monitoring device market.
- **Wabtec** results underwhelmed expectations as freight rail volume in the U.S. continues to recover. Sales were worse than expected in several of their business segments.
- While **Starbucks** remains a fast-growing, high-quality business model, its growth has matured and market expectations were getting a bit ahead of the fundamentals.
- Another health care holding, **Edwards Lifesciences**, pulled back on some profit taking after a big run-up last quarter.
- **Ecolab** is a growth company, but also a very stable business model. Macro cyclicality is responsible for most of the recent sluggishness; however, the street is skeptical that they can return to their historical growth rate.

Portfolio Activity

- Turnover decelerated in the third quarter after a slightly higher-than-average rate for the first half of year as we took advantage of a number of compelling opportunities. This quarter we added two new business models to the roster replacing two stocks we sold previously in the year.
- **BWX Technologies** is a sole-source supplier of nuclear reactors and components primarily used for naval vessels, such as submarines and aircraft carriers. The company recently spun off its non-nuclear business lines and now represents a pure play in a business that requires a very specific expertise in manufacturing and handling of nuclear components. Given the recent restructuring, the company is not well followed or understood by the street despite the consistent nature of the business model.
- Through a series of mergers, **Charter Communications** has become one of the largest cable operators in the U.S. with more than 26 million subscribers. At this scale, they can leverage leading-edge technology into advanced products and services that we believe will translate to lower customer churn rates. The company generates a substantial and growing level of free cash flow, which affords the ability to invest in a virtuous cycle of new technology and stock buybacks. We believe these factors are not properly discounted in the stock price due to exaggerated concerns over recent industry trends.

LARGE-CAP GROWTH REP.ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
PYPL	PayPal Holdings Inc	4.18	19.30	0.74
FB	Facebook, Inc. Class A	4.46	13.17	0.61
V	Visa Inc. Class A	4.80	12.40	0.57
APH	Amphenol Corporation Class A	3.86	14.92	0.55
ISRG	Intuitive Surgical, Inc.	3.82	11.81	0.44
LARGE-CAP GROWTH REP.ACCOUNT BOTTOM FIVE CONTRIBUTORS				
DXCM	Dexcom, Inc.	1.71	-33.12	-0.79
WAB	Westinghouse Air Brake Technologies Corporation	2.06	-17.08	-0.44
SBUX	Starbucks Corporation	2.18	-7.47	-0.18
EW	Edwards Lifesciences Corporation	1.97	-7.55	-0.15
ECL	Ecolab Inc.	3.68	-2.84	-0.11

LARGE-CAP GROWTH REP.ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
BWXT	BWX Technologies, Inc.	Industrials
CHTR	Charter Communications, Inc. Class A	Consumer Discretionary
DELETIONS		SECTOR
	None	

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.
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.

Disclosures

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be 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. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

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 9/30/2017 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.

Factset® is a registered trademark of Factset Research Systems, Inc. Global Industry Classification Standard (GICS®) and “GICS” are service makers/trademarks of MSCI and Standard & Poor’s. Figures shown on sector diversification and quarterly attribution by detail slides may not total due to rounding.

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.