# Large-Cap Sustainable Growth

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

Second Quarter 2017

**COMPOSITE PERFORMANCE (%)**

| | COMPOSITE GROSS OF FEES | COMPOSITE NET OF FEES | RUSSELL 1000® GROWTH INDEX |
|---|---|---|---|
| 3 Mos. | 5.83 | 5.68 | 4.67 |
| YTD | 14.86 | 14.56 | 13.99 |
| 1 YR | 19.69 | 19.07 | 20.42 |
| 3 YR | 13.84 | 13.23 | 11.11 |
| 5 YR | 16.48 | 15.84 | 15.30 |
| ITD (12/31/09) | 15.98 | 15.41 | 14.09 |

**REP. ACCOUNT CHARACTERISTICS**

| | LARGE-CAP SUS. GROWTH REP. ACCT. | RUSSELL 1000® GROWTH INDEX |
|---|---|---|
| Weighted Avg. Market Cap. | $140.1B | $190.5B |
| P/E Ratio (FY2 Est.) | 23.8x | 19.3x |
| Earnings Growth 3-5 Year Est. | 16.8% | 15.1% |
| PEG Ratio | 1.4x | 1.3x |
| Portfolio Turnover (3 Yr. Avg.) | 34.3% | -- |

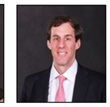
**TOP 10 PORTFOLIO HOLDINGS**

| SECURITY | % PORTFOLIO |
|---|---|
| Alphabet, Inc. (Class A & C)* | 4.7 |
| Visa, Inc. | 4.7 |
| Microsoft Corp. | 4.5 |
| Adobe Systems, Inc. | 4.5 |
| Amazon.com, Inc. | 4.4 |
| American Tower Corp. | 4.3 |
| Thermo Fisher Scientific, Inc. | 4.3 |
| UnitedHealth Group, Inc. | 4.3 |
| Facebook, Inc. | 4.3 |
| Cash & Equivalents | 4.0 |
| **TOTAL** | **44.0** |

*Alphabet Inc. represents a 0.7% holding position in class A and 4.0% in class C shares of the stock.


**KARINA FUNK, CFA**
*Co-Portfolio Manager*

**DAVID POWELL, CFA**
*Co-Portfolio Manager*

## Review & Outlook

The Large-Cap Sustainable Growth strategy outperformed its benchmark, the Russell 1000® Growth Index, primarily due to strong performance from our health care and technology holdings. Health care was the best-performing sector within our benchmark overall, and the technology sector was buoyed by strong double-digit stock returns from some large benchmark constituents.

It is prudent to pause after an extended period of positive performance, and think about whether valuations at this time are in line with our companies' fundamentals. Regardless of sector, we are less concerned with multiple expansion when it is coincident with company fundamentals getting stronger. That is certainly the case in the health care names that were the strongest contributors to performance this past quarter. While uncertainty regarding health care reform persists, we have high conviction in our holdings within the sector because our companies are involved (to various degrees) in helping to reduce inefficiencies, misdiagnoses and re-admissions, while increasing quality of life and potentially saving lives. We believe these drivers will remain in place regardless of any changes in the insurance marketplace.  In contrast, we avoid businesses whose models depend on unstable pricing practices, are vulnerable to generic competition, or have valuations driven almost entirely by binary events such as clinical trial outcomes.

Similarly, many of our technology holdings are performing well and improving their business models along the way. **Adobe**, for example, which we bought in the first half of 2016, had exited 2015 with 74% of revenues from recurring sources. Today, visibility is even higher at 86% recurring revenue reported in the second quarter this year, as it wins more business and becomes more strategic to more, and larger, customers.

We have also opportunistically added to positions. Kitchen equipment manufacturer **Middleby,** for example, has retrenched recently (temporarily, we believe) due to fears of slowing organic growth. That is a fair concern, but one that is in our rear-view mirror. The secular trend of eating out is still strong and accelerating. Restaurants are experimenting with their menus and grocery stores, convenience stores, and meal delivery businesses are also entering and innovating in the prepared food market. No matter which restaurant or food service provider is poised to take share, Middleby can provide kitchen equipment that uses less energy, water, space and labor than other solutions. We also added on weakness to **Danaher**, **Salesforce.com** and **Wabtec**; we have strong confidence in the upside potential of all of these companies. To fund our additions to the above positions, we eliminated **Nike**.

New in the portfolio this quarter are **Unilever** and **Monolithic Power**. Unilever is one of the world's best-known consumer goods companies, and its products are used by 2.5 billion people every day. We like the company today because of the meaningful investments it has made over the past few years. We believe these investments position the company for multiple sources of value creation, including margin improvements and an enviable competitive position in emerging markets. Monolithic Power provides energy-efficient power management chips for fast-growing electrical products markets such as automotive, industrial and computing. Monolithic Power has created a compelling platform technology that can serve many different end-markets and offers programmability which can reduce elements of chip development time from weeks or even months, to a few hours.

As a reminder, we construct our portfolio by focusing on companies with unique fundamental strengths, that use sustainable strategies to improve their business even further by growing their revenue faster, cutting costs to become more competitive or adding to their franchise value. This philosophy has served us well over the last seven years and we believe it will continue to do so in the years ahead.

# Sector Diversification

- Sector allocation in both absolute and relative terms did not change significantly during the second quarter.
- Consistent with prior quarters, the portfolio is overweight industrials and underweight consumer staples, energy and financials. We do not use sector rotation as a driver of return; our sector weightings are primarily determined by where we find opportunities in our bottom-up stock selection process.
- As we have previously noted, many of our industrial and information technology holdings could be categorized within other sectors. Several of our industrial firms primarily serve in the health care sector, while several technology holdings are involved in financial services.

| SECTOR | LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT (%) | RUSSELL 1000® GROWTH INDEX (%) | DIFFERENCE (%) | LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT (%) | |
|---|---|---|---|---|---|
| | Q2 '17 | Q2 '17 | Q2 '17 | Q1 '17 | Q2 '16 |
| Consumer Discretionary | 8.45 | 18.58 | -10.13 | 11.71 | 12.45 |
| Consumer Staples | 4.52 | 7.63 | -3.12 | 1.88 | 2.54 |
| Energy | -- | 0.82 | -0.82 | -- | -- |
| Financials | -- | 3.36 | -3.36 | -- | -- |
| Health Care | 19.17 | 13.66 | 5.51 | 17.6 | 26.51 |
| Industrials | 19.97 | 12.30 | 7.67 | 22.98 | 22.10 |
| Information Technology | 37.26 | 36.22 | 1.04 | 36.35 | 29.70 |
| Materials | 6.11 | 3.86 | 2.24 | 5.47 | 2.47 |
| Real Estate | 4.52 | 2.60 | 1.92 | 4.02 | 4.22 |
| Telecommunication Services | -- | 0.95 | -0.95 | -- | -- |
| Utilities | -- | 0.01 | -0.01 | -- | -- |

# Quarterly Attribution Detail by Sector

- Consistent with our strategy's history, our performance in each sector relative to the benchmark was driven by stock selection more than allocation.
- **Edwards, Mettler-Toledo**, **Thermo Fisher Scientific** and **United Health** all posted strong gains this past quarter and drove our outperformance in health care.
- Stock selection compromised performance within industrials this quarter, with **Middleby** and **Acuity** each posting double-digit declines. These were partially offset by strong performance and positive outlooks from **AO Smith** and **Wabtec** in the sector.

| SECTOR | LARGE-CAP SUSTAINABLE 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 | 10.67 | 1.75 | 20.59 | 2.75 | 0.21 | -0.10 | 0.11 |
| Consumer Staples | 3.49 | -4.75 | 8.87 | 1.58 | 0.17 | 0.04 | 0.21 |
| Energy | -- | -- | 0.49 | -8.89 | 0.05 | -- | 0.05 |
| Financials | -- | -- | 2.85 | 6.85 | -0.07 | -- | -0.07 |
| Health Care | 18.47 | 12.25 | 15.66 | 7.87 | 0.09 | 0.76 | 0.86 |
| Industrials | 20.70 | 3.08 | 10.69 | 5.46 | -- | -0.52 | -0.52 |
| Information Technology | 36.83 | 6.27 | 33.59 | 5.34 | 0.05 | 0.35 | 0.40 |
| Materials | 5.72 | 10.07 | 3.55 | 5.82 | 0.02 | 0.23 | 0.26 |
| Real Estate | 4.12 | 9.96 | 2.72 | 3.42 | -0.01 | 0.26 | 0.25 |
| Telecommunication Services | -- | -- | 0.96 | -7.13 | 0.12 | -- | 0.12 |
| Utilities | -- | -- | 0.02 | 1.00 | -- | -- | -- |
| **Total** | **100.00** | **6.34** | **100.00** | **4.67** | **0.64** | **1.03** | **1.67** |

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

- Four of our five top contributors this quarter were health care companies. Research and development spending remains strong along with demand for more effective and efficient patient outcomes.
- **Edwards** has developed a minimally invasive heart surgery technology that reduces hospital stays and readmission rates with a significantly increased probability of survival and higher quality of life. After our analyst undertook proprietary research to better understand the company's opportunity set, we came away with higher conviction that Edwards has a larger addressable market than we initially envisioned over the next several years. We added to the position early in the quarter.
- **UnitedHealth** reported a strong quarter. We believe it will be a share taker in the insurance market by leveraging its data analytics advantage through Optum, the company's technology subsidiary.
- **Mettler-Toledo** reported an outstanding quarter particularly from an organic growth perspective. We believe this strong level of growth can continue in the near term given that the company's industrial markets are just starting to gain traction.
- **Amazon** announced its acquisition of Whole Foods during the quarter, and the stock bounced. Our initial view is that the deal tremendously benefits Amazon's retail model by providing both a quality grocery offering and a physical touchpoint with the consumer.
- **Thermo Fisher Scientific** continues to broaden its portfolio with life science customers. During the quarter, it announced a $7.5 billion acquisition of Pantheon, a contract development and manufacturing organization (CDMO) focused on biologics and drug manufacturing, which will complement Thermo's core life sciences tools businesses.
- **Middleby's** shares declined due to fears of slowing organic growth as well as persistent legacy warranty expenses stemming from its acquisition of Viking, a residential cooking equipment line. Viking's newer products have greater customer appeal, and the secular trend of eating out is still robust. We added to the position early in the quarter.
- **Akamai's** stock continues to be as volatile as its content delivery business. Despite strong growth in the company's security business, share losses continue to plague the content delivery business. Given we expect these share losses to continue, we sold the stock in the quarter.
- **Cavium** posted a good quarter as it prepares to ramp several products that we believe will accelerate growth. The stock declined a few weeks later in sympathy with the sell-off in technology names late in the quarter. We believe our thesis is intact and added to the position to take advantage of an attractive risk-reward profile.
- **TJX** reported a mixed quarter and provided guidance that fell short of consensus estimates. We believe TJX will soon start to benefit from its multi-year investments in its labor force and technology. We continue to hold the stock as a core position.
- **Acuity** has entered a period of slower growth due in part to its tremendous success in driving penetration of energy-efficient LEDs where the energy savings can be realized quickly. We await new product innovations to offset its slower near-term growth; in the meantime, Acuity's high multiple led us to sell the stock this quarter.

LARGE-CAP SUSTAINABLE GROWTH
REP. ACCOUNT TOP FIVE CONTRIBUTORS

| TICKER | NAME | AVG. WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|
| EW | Edwards Lifesciences Corporation | 2.72 | 25.69 | 0.63 |
| UNH | UnitedHealth Group Incorporated | 4.26 | 13.52 | 0.56 |
| MTD | Mettler-Toledo International Inc. | 2.32 | 22.89 | 0.50 |
| AMZN | Amazon.com Inc. | 5.11 | 9.19 | 0.49 |
| TMO | Thermo Fisher Scientific Inc. | 3.97 | 13.68 | 0.49 |

LARGE-CAP SUSTAINABLE GROWTH
REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS

| TICKER | NAME | AVG. WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|
| MIDD | Middleby Corporation | 2.47 | -10.95 | -0.29 |
| AKAM | Akamai Technologies Inc. | 0.83 | -12.68 | -0.27 |
| CAVM | Cavium Inc. | 1.63 | -13.30 | -0.22 |
| TJX | TJX Companies Inc | 2.23 | -8.38 | -0.19 |
| AYI | Acuity Brands Inc. | 1.01 | -7.49 | -0.18 |

## Portfolio Activity

- **Unilever** is one of the world's best known consumer goods companies, and its products are used by 2.5 billion people every day. Because of the substantial investments the company has made over the past few years, we believe that it is positioned for strong improvements in its financial results.
- **Monolithic Power** provides energy-efficient power management chips for fast-growing electrical products markets such as automotive, industrial and computing. Monolithic Power has created a compelling platform technology that can serve many different end-markets and can reduce development time for their customers from weeks or even months, to a few hours.
- We eliminated our small position in **NXP Semiconductors**, which we began to exit when Qualcomm announced its intention to acquire the company last year.
- We eliminated **Nike** after having trimmed it to one of our smallest positions late last year. The competitive landscape has intensified since we initiated our position back in 2011, and we distributed that capital into names that either offer more upside or where we believe there is greater downside protection.
- As noted earlier in the commentary, we exited **Acuity** (on a lull in growth rate) and **Akamai** (in response to the volatility produced by its media business) during the quarter.

LARGE-CAP SUSTAINABLE GROWTH
REP. ACCOUNT PORTFOLIO ACTIVITY

| ADDITIONS | | SECTOR |
|---|---|---|
| MPWR | Monolithic Power Systems, Inc. | Information Technology |
| UN | Unilever NV ADR | Consumer Staples |
| **DELETIONS** | | **SECTOR** |
| AYI | Acuity Brands, Inc. | Industrials |
| AKAM | Akamai Technologies, Inc | Information Technology |
| NKE | NIKE Inc, Class B | Consumer Discretionary |
| NXPI | NXP Semiconductors NV | Information Technology |

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

# Large-Cap Sustainable Growth 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 ($USD Millions) | Firm Assets ($USD Millions) |
|---|---|---|---|---|---|---|---|---|---|
| 2016 | 6.6 | 6 | 7.1 | 11.5 | 11.2 | 32 | 0.1 | 503 | 30,417 |
| 2015 | 13.7 | 13.1 | 5.7 | 11.1 | 10.7 | 23 | 0.3 | 405 | 43,746 |
| 2014 | 7.1 | 6.5 | 13.1 | 9.9 | 9.6 | 25 | 0.1 | 303 | 44,772 |
| 2013 | 34.5 | 33.7 | 33.5 | 12.1 | 15.5 | 24 | 0.2 | 288 | 40,739 |
| 2012 | 16.5 | 15.9 | 15.3 | 15.7 | 15.7 | 22 | 0.3 | 211 | 26,794 |
| 2011 | 5.4 | 5 | 2.6 | NA | NA | 21 | 0.3 | 37 | 19,962 |
| 2010 | 23.5 | 23.1 | 16.7 | NA | NA | 18 | N/A | 13 | 16,859 |

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2015. 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 Sustainable Growth Composite includes all discretionary portfolios invested in the Sustainable Large Cap Strategy. The strategy invests primarily in large market capitalization companies with financially and environmentally sustainable business models. The minimum account market value required for composite inclusion is $1.5 million. Prior to 2012, the minimum was $100,000.
3. This composite was created in 2010. Prior to 3/31/13, the strategy was named Large-Cap Sustainability. Prior to 12/31/2011 the strategy was named Winslow Green Large Cap. No changes have been made to the strategy since inception.
4. 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.
5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the composite for the entire period.
6. 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.
7. 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. The 3 year annualized standard deviation is not presented as of December 31, 2010 and December 31, 2011 because 36 monthly returns for the composite were not available (NA).
8. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
10. Past performance does not indicate future results.
11. 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 Sustainable Growth Composite and was obtained through FactSet®. All information and returns shown are as of 06/30/2017 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 Sustainable 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.

The portfolio information provided is based on a representative Brown Advisory Large-Cap Sustainable Growth account as of 06/30/2017 and is provided as supplemental information. Sector breakdown and portfolio characteristics exclude cash and cash equivalents; top 10 portfolio holdings include cash and cash equivalents. 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.

### 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. **Weighted Average Market Cap** refers to 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). **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. **Earnings Growth 3-5 Year Est.** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokerage firms, calculated according to each broker's methodology. **P/E / Growth Ratio,** or **PEG Ratio,** is the ratio of a portfolio's P/E Ratio divided by its Earnings Growth 3-5 Year Est. **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 as a percentage of a portfolio by that security's return for the period covered in the report.