

Large-Cap Sustainable Growth

QUARTERLY STRATEGY UPDATE

Third Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	8.19	8.04	9.17
YTD	19.91	19.42	17.09
1 YR.	28.50	27.80	26.30
3 YR.	20.68	20.04	20.55
5 YR.	16.97	16.34	16.58
ITD (12/31/2009)	17.49	16.90	15.74

The composite performance shown above reflects the Brown Advisory Large-Cap Sustainable Growth 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 SUSTAINABLE GROWTH REP. ACCT.	RUSSELL 1000® GROWTH INDEX
Wtd. Avg. Market Cap.	\$200.3 B	\$320.1 B
EV/FCF (FY2 Est.)	26.3x	28.3x
Name Turnover (3 YR Avg.)	22.0%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corp.	4.9
Visa, Inc.	4.7
UnitedHealth Group, Inc.	4.4
Amazon.com, Inc.	4.3
Danaher Corp.	4.2
Thermo Fisher Scientific, Inc.	4.1
American Tower Corp.	4.0
Alphabet, Inc. Class A	3.9
Adobe Systems, Inc.	3.6
Intuit, Inc.	3.5
TOTAL	41.6

Review & Outlook

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Portfolio Manager

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Portfolio Manager



During the third quarter, our strategy underperformed its benchmark, the Russell 1000® Growth Index. Strong stock-specific performance in health care and materials was offset by the underperformance of our holdings in industrials and information technology.

The broader domestic markets generally performed well in the third quarter. Despite numerous fears on the horizon, the global economy appears to be in good shape. In the U.S., unemployment is low, inflation is fairly benign and corporate profitability continues to rise. In contrast to only a few years ago, many large corporations are exceeding revenue growth expectations, which further illustrates the strong underlying health of the economy. While there are still a few pockets of weakness and growth is slowing in some sectors, the prospect for continued global growth appears to remain strong, in our view.

Our strongest sector during the quarter was materials. Our two holdings in the sector, **Ecolab** and **Ball Corporation**, had strong performance during the period. Sustainability is core to each company's growth strategy. Ecolab helps customers around the world reduce their energy and water usage. Ball manufactures aluminum beverage cans. Unlike all other substrates, aluminum is infinitely recyclable, and management intends to position aluminum cans as a more sustainable alternative to plastic and glass. We are confident that both companies can achieve steady, consistent growth going forward, buoyed by their commitment to, and alignment with, sustainability.

Our portfolio maintains an overweight in health care, largely due to our preference for steady growers in the medical device and laboratory equipment market, such as **Thermo Fisher Scientific**, **Danaher** and **Mettler Toledo**. **West Pharmaceutical Services** performed particularly well, in our view, during the quarter, on the heels of its strong leadership position in the biologic industry. West Pharmaceutical Services helps its customers meet their safety and sustainability goals across the manufacturing supply chain in health care. With the FDA approving more new biologic indications than ever before, we are confident that West's growth rate can accelerate going forward.

On the downside, many of our industrial and information technology holdings were under pressure during the quarter. Reduced global auto production, slower semiconductor sales and declining consumer sentiment in China hurt the shares of many of our companies exposed to these markets. We generally own companies for many years, and we inevitably run into periods of slower end-market growth during those holding periods. When faced with these situations, we ask if our long-term investment thesis is still intact despite the short-term end-market weakness. If the answer is yes, we typically add to the position. During the past quarter, we followed this strategy and added to several of our worst performers, including **Marvell**, **Facebook**, **Aptiv** and **Welbilt**. We reallocated capital from some of our best performing holdings, including **Amazon**, **Visa**, **Adobe** and **Intuit**, to make these purchases. Reallocating capital to take advantage of near-term weakness is a strategy that we continuously employ. In our view, this practice helps lower the risk in the portfolio and keeps the portfolio optimized with companies that have the best risk/reward framework.

We remain fully invested and disciplined in our process of finding investment opportunities at the intersection of strong fundamentals, sustainable business advantages and attractive valuation. This philosophy has served us well over the last nine years, and we believe it will continue to do so in the years ahead. **BA**

Sector Diversification

- Sector allocation in both absolute and relative terms did not change notably during the 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 (%)	
	Q3 '18	Q3 '18	Q3 '18	Q2 '18	Q3 '17
Communication Services	6.72	12.01	-5.30	6.93	9.06
Consumer Discretionary	13.48	15.38	-1.89	13.42	7.02
Consumer Staples	2.01	5.45	-3.44	2.20	2.80
Energy	--	0.90	-0.90	--	--
Financials	--	4.18	-4.18	--	--
Health Care	22.48	13.79	8.68	21.31	19.34
Industrials	14.59	12.00	2.59	14.90	22.94
Information Technology	31.01	32.65	-1.65	31.56	28.16
Materials	5.62	1.65	3.96	5.25	6.28
Real Estate	4.11	1.99	2.12	4.44	4.41
Utilities	--	--	--	--	--

Quarterly Attribution Detail by Sector

- Strong outperformance in our health care and materials holdings was offset by weakness in some of our industrial and information technology companies.
- Our largest sector overweight is health care, where we hold nearly twice the weighting of the benchmark, based primarily on bottom-up identification of specific attractive companies. Strong results from Thermo Fisher and West Pharmaceutical led the sector during the quarter.
- Starting this quarter, communication services was added as a new sector. Our underweight proved helpful to overall performance, as the sector declined amid a broad market rally.
- Outperformance in the materials sector stemmed from strong results from Ball Corp. and Ecolab.

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 (%)
Communication Services	7.28	-1.59	12.57	-1.00	0.46	-0.03	0.43
Consumer Discretionary	13.57	8.97	15.21	10.26	-0.02	-0.16	-0.18
Consumer Staples	1.95	0.36	5.55	6.32	0.10	-0.12	-0.02
Energy	--	--	0.92	-4.64	0.13	--	0.13
Financials	--	--	4.36	3.21	0.25	--	0.25
Health Care	21.46	14.21	13.62	12.82	0.29	0.23	0.51
Industrials	14.76	2.30	11.96	10.66	0.04	-1.19	-1.15
Information Technology	31.19	9.72	32.03	13.75	-0.04	-1.15	-1.19
Materials	5.51	16.72	1.72	-0.08	-0.34	0.88	0.53
Real Estate	4.28	1.34	2.08	0.18	-0.20	0.05	-0.15
Utilities	--	--	--	--	--	--	--
Total	100.00	8.34	100.00	9.17	0.67	-1.49	-0.83

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

- **Microsoft** posted another strong quarter, building on an extended period of strength. The company's Azure and Office 365 businesses contributed to impressive growth. We believe Microsoft is still early in its transition to a dominant hybrid cloud company. It is currently our largest holding.
- Amazon's strong margin performance in the most recent quarter relative to expectations sparked a rally in its shares. The company's North American e-commerce business, its cloud computing offering (AWS) and its advertising business generated strong profitability.
- Thermo Fisher delivered another quarter of strong organic growth. Two of the company's most recent acquisitions, Patheon and FEL, hit the ground running and contributed to growth. Given Thermo's leadership position in serving the biopharmaceutical industry, we remain bullish on the company's prospects.
- West Pharmaceutical Services posted a solid quarter and maintained guidance for the year. The company is shifting its offering toward high-value products that are margin accretive to the company. During the quarter, West hired a new chief financial officer who, we believe, will help increase West's insight into its customer's supply chains. We are hopeful the new CFO will help dampen volatility and smooth out results going forward.
- Visa delivered solid quarterly results and raised its guidance for the year. Payment volume remains strong, and the integration of Visa Europe is progressing well. We believe Visa is at the forefront of offering unique payment technologies to its customers to help reduce the friction in payment transactions.
- Facebook lowered its long-term profitability goals to account for the onboarding of thousands of new employees over the next few years. These new employees will help the company fight against controversies that have plagued the social network, including fake news, political interference, hate speech, data security and privacy concerns. After reducing our position earlier in the year, this quarter, we added to our position on the belief that the stock's current price more than discounts the negative ramifications from these events.
- **A.O. Smith** fell on concern that slower growth in China will negatively affect the company's water heater business going forward. China represents roughly one-third of total company sales and has been a meaningful driver of growth. We believe that A.O. Smith has numerous other growth drivers, however, and these should help it weather any China slowdown.

LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MSFT	Microsoft Corporation	5.08	16.43	0.81
AMZN	Amazon.com, Inc.	4.51	17.84	0.76
TMO	Thermo Fisher Scientific Inc.	4.05	17.92	0.68
WST	West Pharmaceutical Services, Inc.	3.01	24.53	0.67
V	Visa Inc. Class A	4.80	13.49	0.62
LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
FB	Facebook, Inc. Class A	2.74	-15.37	-0.48
AOS	A. O. Smith Corporation	2.20	-9.49	-0.20
MRVL	Marvell Technology Group Ltd.	2.02	-9.73	-0.18
APTIV	Aptiv PLC	1.82	-8.23	-0.15
WBT	Welbilt Inc	2.11	-6.41	-0.13

- Marvell fell on concern that its recently completed Cavium acquisition will not be as accretive as initially communicated. We disagree with this assessment and added to our position. The combined companies will, in our view, be much stronger in networking and storage, and be able to offer a full suite of products across both industries.
- Aptiv declined on fears that the slowdown in the auto industry will negatively affect the company's growth going forward. While we are cognizant of the production decline, we believe that Aptiv will continue to grow well in excess of the industry given the company's leadership position in electrification and autonomous driving.
- Welbilt put up a great quarter in our view, but its CEO resigned to take an opportunity at a larger company. The stock declined on the surprising news. After meeting the new CEO, we believe that Welbilt is poised for reaccelerating growth and added to our position.

Portfolio Activity

- While we engaged in activity during the quarter to shift our weightings among our portfolio holdings, we did not invest in any new names. During the quarter, we trimmed our existing position in **Alphabet** (Google's parent company) and reallocated the proceeds into other names. When the company split the share classes in 2014, we became owners of both Class A (voting) and Class C (nonvoting) shares, and any adding to our position size has been to the Class A (voting) shares. We dwindled the nonvoting shares to exit that class of shares but retained our Class A shares and remain confident in our investment thesis for Alphabet.

LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
	None	
DELETIONS		SECTOR
GOOG	Alphabet Inc. Class C	Communication Services

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)	GIPS Firm Assets (\$USD Millions)
2017	29.1	28.4	30.2	10.6	10.5	32	0.2	762	33,155
2016	6.6	6.0	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	5.0	2.6	--	--	21	0.3	37	19,962
2010	23.5	23.1	16.7	--	--	18	--	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, 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.

- *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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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 month returns for the composite were not available (NA).
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
- 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 Sustainable 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 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.

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 and sector attribution excludes cash and cash equivalents. 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. 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). **Enterprise Value/Free Cash Flow (EV/FCF)** is the enterprise value of a company (defined as market value plus debt minus cash and minority interests) divided by its free cash flow (defined as operating cash flow minus net capital expenditure). EV/FCF 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. **Name 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.