

Large-Cap Sustainable Growth

QUARTERLY STRATEGY UPDATE

Fourth Quarter 2017

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	7.16	7.02	7.86
1 YR.	29.06	28.38	30.21
3 YR.	16.07	15.45	13.79
5 YR.	17.63	16.99	17.33
ITD (12/31/09)	16.60	16.02	15.05

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 GROWTH REP. ACCT.	RUSSELL 1000® GROWTH INDEX
Wtd. Avg. Market Cap.	\$160.7 B	\$227.4 B
P/E Ratio (FY2 Est.)	25.7x	20.7x
Earnings Growth (3-5 Yr. Est.)	15.7%	14.8%
PEG Ratio	1.6x	1.4x
Portfolio Turnover (3 Yr. Avg.)	31.7%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Alphabet Inc. (Class A & C)*	4.8
Microsoft Corp.	4.7
Visa, Inc.	4.6
Cash & Equivalents	4.6
American Tower Corp.	4.4
Adobe Systems, Inc.	4.4
UnitedHealth Group, Inc.	4.2
Thermo Fisher Scientific, Inc.	4.0
Amazon.com, Inc.	3.9
Danaher Corp.	3.8
TOTAL	43.4

*Alphabet Inc. represents a 4.1% holding position in class A and 0.7% in class C shares of the stock.

KARINA FUNK, CFA
Portfolio Manager

DAVID POWELL, CFA
Portfolio Manager



Review & Outlook

In the fourth quarter, the strategy underperformed its benchmark, the Russell 1000® Growth Index. Strong stock-specific performance in health care and information technology was not enough to offset weakness in industrials and materials. The same is true for our full-year performance where our health care and IT names, as well as stock-specific performance in, and underweighting of consumer staples, contributed positively to performance, but was more than offset by disappointing results in industrials and materials. Overall, we modestly underperformed our benchmark in 2017.

Taking a longer look back at performance, since the portfolio's inception (eight years ago), we have modestly outperformed our benchmark. The majority of our outperformance came during periods of market weakness. We believe this is due to our strict valuation discipline, preference for high-quality companies and our research that focuses on identifying some of the most persistent drivers of value creation for companies. Just as our approach helps us deliver downside protection, it is not surprising to see us lag during "risk-on" market periods such as 2017. The majority of our portfolio consists of what we believe to be steady-growth companies with low double-digit bottom-line growth prospects—while we strongly believe in the long-term value of investing in such companies, it has not helped us in the current market environment.

Our portfolio activity picked up toward the end of the year as we re-allocated capital from some of our well-performing health care names to initiate a new position in **West Pharmaceutical Services, Inc.** West is a leading manufacturer of packaging components and delivery systems for injectable drugs and health care products. Its products and services are increasingly sought by pharmaceutical companies to reduce the likelihood of defects and recalls, and to improve the safety and efficacy of medication delivery.

Many of our industrials holdings struggled throughout the year, and we made some changes in this sector. While **Middleby** has been a core holding and strong performer in our portfolio for many years, we saw recent softness in its organic growth rates, as well as what we viewed as some strategic missteps. As a result, during the fourth quarter, we sold Middleby and in its place added one of its competitors, **Welbilt**. Welbilt was recently spun out of a larger company; the new firm is tightly focused on the commercial foodservice equipment market, where its products offer many of the same efficiency benefits that we liked in Middleby's offerings. We think Welbilt offers the potential for both market share and margin improvement in the near term.

During the fourth quarter, we also established a new position in Delphi Automotive prior to its breakup into two separate companies: **Aptiv** and **Delphi Technologies**. The companies have roots in Delphi's legacy powertrain, safety and infotainment solutions. Aptiv provides critical components, technology and software for electrical infrastructure and vehicle controls. We believe Aptiv is well-positioned for the growing autonomous and electric vehicle architecture markets. We made room for Aptiv by eliminating **Hexcel Corporation**, and subsequently sold our small Delphi Technologies position after Delphi's separation.

We remain fully committed to our process of finding investment opportunities at the intersection of strong fundamentals, sustainable business advantages and attractive valuation. We look forward to updating readers on these opportunities as they unfold in 2018. [B](#)

Sector Diversification

- Sector allocation in both absolute and relative terms did not change significantly 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 (%)	
	Q4 '17	Q4 '17	Q4 '17	Q3 '17	Q4 '16
Consumer Discretionary	10.00	18.09	-8.09	7.02	11.16
Consumer Staples	2.55	6.82	-4.27	2.80	1.75
Energy	--	0.88	-0.88	--	--
Financials	--	3.39	-3.39	--	--
Health Care	19.82	12.82	7.00	19.34	18.52
Industrials	19.10	12.78	6.32	22.94	24.02
Information Technology	37.85	37.95	-0.11	37.22	34.94
Materials	6.04	3.74	2.29	6.28	5.80
Real Estate	4.65	2.52	2.13	4.41	3.81
Telecommunication Services	--	0.99	-0.99	--	--
Utilities	--	0.01	-0.01	--	--

Quarterly Attribution Detail by Sector

- Outperformance in our health care holdings was driven primarily by **UnitedHealth**, which delivered strong growth throughout the year via share gains in insurance and traction in its Optum technology and data analytics business.
- The strongest performer among our tech sector holdings was **Cavium Technologies**, up 27% after Marvel announced an agreement to acquire the company. Although we generally hold relatively small positions in our more volatile and faster-growing companies to mitigate the inherent risk in these businesses, we are pleased at this validation of Cavium's leading energy-efficient and powerful processors for a wide range of infrastructure equipment. The IT juggernauts among our holdings (**Microsoft**, **Facebook**, **Amazon** and **Google**) were all up during the quarter, and we continue to see these companies as differentiated businesses with their own compelling competitive advantages.
- Our industrials and materials holdings lagged in the quarter, in part because Healthcare Services Group retrenched a bit from its strong gains for the year, and because **Ball Corporation** posted a shortfall for the quarter (the hurricane season impacted both the supply and demand sides of its business).

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	8.37	12.89	17.74	10.83	-0.22	0.07	-0.15
Consumer Staples	2.62	-4.01	6.66	9.45	-0.06	-0.35	-0.42
Energy	--	--	0.86	6.00	0.02	--	0.02
Financials	--	--	3.39	6.85	0.03	--	0.03
Health Care	19.34	5.64	13.27	0.83	-0.43	0.95	0.52
Industrials	20.97	7.07	12.45	10.08	0.07	-0.66	-0.59
Information Technology	37.88	10.58	38.36	8.55	--	0.75	0.74
Materials	6.23	-1.64	3.77	5.60	-0.06	-0.45	-0.50
Real Estate	4.59	4.90	2.54	5.64	-0.04	-0.04	-0.08
Telecommunication Services	--	--	0.94	7.67	--	--	--
Utilities	--	--	0.01	11.43	-0.01	--	-0.01
Total	100.00	7.42	100.00	7.86	-0.70	0.26	-0.44

Quarterly Contribution to Return

- **Adobe** Systems delivered a strong finish to the year with a revenue beat and issuance of upbeat guidance for 2018. The total addressable market for its creative software and marketing solutions continues to grow as more content moves online.
- Amazon reported remarkable revenue growth of 34% during the third quarter of its fiscal year. The company's public cloud business, Amazon Web Services, had another strong quarter of attractive growth.
- Microsoft also reported broad-based fundamental strength, particularly in its commercial cloud business, during its fiscal first quarter. It also delivered impressive operating margin expansion.
- UnitedHealth Group continued to gain share in its core insurance business. The company's Optum business also had a strong quarter. Management continues to invest in Optum; during the quarter, UnitedHealth acquired DaVita Medical Group as well as Empresas Banmédica (a health care provider and insurer serving Chile, Colombia and Peru).
- **Nordson** reported a better-than-expected quarter driven by strong results/orders from its electronics, medical and auto applications. Management has done an admirable job over the last ten years at diversifying the business into new growth categories including the medical side of the business.
- Ball missed expectations in the most recent quarter and guided below consensus due to disruptions from the hurricanes in Texas and Florida. The effects shut down customers and parts of the company's supply chain for more than a week.
- **Unilever** reported disappointing third-quarter sales, which were attributable to a variety of factors, ranging from hurricane effects to market share loss in some segments. We are watching carefully to see if some of these issues represent a longer-term trend. Meanwhile, we note that Unilever is succeeding at ramping volumes in emerging markets, which was a key part of our initial investment thesis.
- **Healthcare Services Group** was down modestly after posting an essentially in-line quarter. We view this as a natural pullback; the stock posted strong results last quarter after reporting tremendous growth in new business.
- Middleby, as described previously, suffered from a decline in organic growth. Many of its customers have pushed out equipment purchases while contemplating other investments in technology given changing consumer preferences. We eliminated the holding during the quarter.
- Aptiv was modestly down after the shares reflected a spinoff of Delphi's legacy power train business on November 21.

Portfolio Activity

- Aptiv has a leadership position in offering safe, green and connected solutions to vehicle manufacturers that satisfy tighter safety, emissions and fuel economy regulations. Most notably, Aptiv is positioned at the heart of the strong secular growth in active safety technology, which helps to prevent vehicle collisions.
- Delphi is a leading supplier of integrated powertrain technologies. We purchased shares of Delphi ahead of its spinoff of Aptiv, then subsequently sold the majority of our small position in Delphi. We also eliminated Hexcel to make room for our new position in Aptiv.
- Welbilt is a leading commercial foodservice equipment company. It designs connected and energy-efficient cooking, holding, food preparation, beverage dispensing, refrigeration and ice-making technologies for restaurants and the food processing industry. It helps its customers improve quality control and food safety, while reducing energy, water and labor costs. We invested proceeds from the sale of Middleby to purchase Welbilt, believing that Welbilt will be a share gainer as restaurants and food service providers sort out their equipment capital allocation to drive volumes.

LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
ADBE	Adobe Systems Incorporated	4.64	17.47	0.81
AMZN	Amazon.com, Inc.	3.82	21.65	0.75
MSFT	Microsoft Corporation	4.86	15.42	0.73
UNH	UnitedHealth Group Incorporated	4.57	12.94	0.57
NDSN	Nordson Corporation	2.25	23.81	0.50
LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
BLL	Ball Corporation	2.99	-8.12	-0.24
UN	Unilever NV ADR	2.62	-4.01	-0.11
HCSG	Healthcare Services Group, Inc.	2.81	-1.94	-0.07
MIDD	Middleby Corporation	1.79	2.09	-0.02
APTIV	Aptiv PLC	0.84	-1.10	-0.01

LARGE-CAP SUSTAINABLE GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
APTIV	Aptiv PLC	Consumer Discretionary
DLPH	Delphi Technologies Plc	Consumer Discretionary
WBT	Welbilt Inc	Industrials
WST	West Pharmaceutical Services, Inc.	Health Care
DELETIONS		SECTOR
HXL	Hexcel Corporation	Industrials
MIDD	Middleby Corporation	Industrials

- West Pharmaceutical is a leading manufacturer of packaging components and delivery systems for injectable drugs and health care products. West's products and services promote the safety, purity and efficacy of the world's pharmaceutical drug supply. The company's high-quality products are designed to reduce particulates and defects, which can lead to wasteful product recalls, and to ensure consistency of medication delivery. We took profits from a variety of our health care names to make room for West.

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)
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	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, 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.

- 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 monthly 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 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 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. 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 for the reporting period. 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). **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.