

# Mid-Cap Growth

## QUARTERLY STRATEGY UPDATE

First Quarter 2018

### COMPOSITE PERFORMANCE (%)

|                     | COMPOSITE<br>GROSS OF<br>FEES | COMPOSITE<br>NET OF<br>FEES | RUSSELL<br>MIDCAP®<br>GROWTH<br>INDEX® |
|---------------------|-------------------------------|-----------------------------|--|
| 3 MOS.              | 4.75                          | 4.61                        | 2.17                                   |
| 1 YR.               | 19.51                         | 18.77                       | 19.74                                  |
| 3 YR.               | 12.82                         | 12.05                       | 9.17                                   |
| 5 YR.               | 15.41                         | 14.61                       | 13.31                                  |
| ITD<br>(02/29/2012) | 16.11                         | 15.33                       | 13.43                                  |

The composite performance shown above reflects the Brown Advisory Mid-Cap 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

|                                   | MID-CAP<br>GROWTH<br>REP. ACCT. | RUSSELL 2000®<br>GROWTH INDEX |
|-----------------------------------|---------------------------------|-------------------------------|
| Weighted Avg.<br>Market Cap.      | \$14.17 B                       | \$16.36 B                     |
| Weighted<br>Median<br>Market Cap. | \$10.40 B                       | \$14.07 B                     |
| P/E Ratio<br>(FY2 Est.)           | 21.5x                           | 18.1x                         |
| Active Share                      | 86.3%                           | --                            |

### REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

| SECURITY                             | % PORTFOLIO |
|--------------------------------------|-------------|
| Waste Connections Inc                | 3.9         |
| Broadridge Financial Solutions, Inc. | 2.6         |
| Edwards Lifesciences Corp.           | 2.6         |
| Marriott International, Inc.         | 2.6         |
| Catalent, Inc.                       | 2.6         |
| Cotiviti Holdings, Inc.              | 2.6         |
| Ball Corp.                           | 2.5         |
| Ecolab, Inc.                         | 2.5         |
| Cogent Communications Group, Inc.    | 2.3         |
| TransUnion                           | 2.3         |
| <b>TOTAL</b>                         | <b>26.5</b> |



**CHRISTOPHER A. BERRIER**  
Portfolio Manager



**GEORGE SAKELLARIS, CFA**  
Portfolio Manager

## Review & Outlook

The Mid-Cap Growth Strategy outperformed its benchmark, the Russell Midcap<sup>®</sup> Growth Index, during the first three months of the year. Several trends from the previous quarter reversed, and we recovered most of the ground lost to the benchmark late last year. Positive stock selection across several sectors drove our relative gains, with particular success in materials, health care, consumer discretionary and financial services.

While our benchmark chalked up another money-making quarter—the 10<sup>th</sup> in a row, in fact—the tone of the market changed as the benign malaise of 2017 gave way to jarring volatility. The Russell Midcap Growth Index finished in the red nearly half of the trading days in the first quarter compared to only one-third in the fourth quarter of 2017. The best and worst days in Q4 only differed by 2%. In the first quarter, that range eclipsed 6% (-3.6% to +2.5%). Only two trading sessions in the fourth quarter saw a gain or loss greater than 1%; there were 20 in the first quarter.

The spike in volatility was not the only change. The rally in cyclicals that surfaced in the second half of 2017 reversed in the first quarter. Technology and health care drove returns in our benchmark, much like in the first half of last year. This time around, however, gains were narrowly focused in software, where valuations appear stretched. In addition, small caps outpaced large caps, reversing a trend through all of 2017. This environment likely provided a gentle tailwind to our relative performance. Nonetheless, as it has since inception, stock selection drove most of our positive results. Several positions, including **Edwards Lifesciences**, **Broadridge Financial Solutions**, **Mimecast**, **GoDaddy** and **Electronic Arts**, contributed meaningfully to our outperformance.

Despite the erratic market year-to-date, business conditions seem stable or even improving for domestic small- to midsize companies. Consensus estimates for the Russell Midcap Growth Index call for earnings growth in the mid-20% range. We think that translates to midteens underlying gains plus the benefit of tax reform. This time last year, analysts expected mid-cap growth companies to grow earnings at a low double-digit pace. While valuations seem elevated in certain spots (e.g., high-growth tech, pharma/biotech, and health care services and tools), the Russell Midcap Growth Index overall trades in line with its long-term historical average forward P/E.

Given the tone of the market and the strategy's six-year birthday in the first quarter, we find it prudent to widen the lens. During the past six years, we produced attractive risk-adjusted returns through stock selection and downside protection, primarily by investing in companies that meet our 3G criteria—durable growth, sound governance and scalable go-to-market strategy—and by holding true to our tenets of low turnover, valuation sensitivity, high active share and prudent concentration. We strive to exploit inefficiencies that arise from short-term thinking or price momentum. We hope to then benefit from the power of compounding over a multiyear period. Over the years, our team has built a large body of knowledge of companies in the small- and mid-cap universe, allowing us to act when opportunities present themselves.

In a nutshell, this is our type of market—we welcome volatility and hope we can continue to use it to drive attractive risk-adjusted returns for our clients.

We took advantage of heightened volatility in the first quarter to build positions in **HealthEquity (HQR)** and **Cintas (CTAS)**. We have followed HealthEquity, a leading administrator of health savings accounts (HSAs), for years. At one point or another, we have owned every one of its publicly traded competitors in the Small-Cap Growth Strategy. We believe HSAs are only about 25% penetrated, and that trend toward high-deductible health care plans will push double-digit account growth for years. Moreover, HealthEquity has gained share with an attractive offering, and we think that can continue. We believe HealthEquity is the best-positioned competitor to benefit from rising rates. As that became a reality, we built a position on both market and stock-specific weakness following a misinterpreted industry report that erroneously showed marketwide growth for HSAs slowing.

We constructed a meaningful position in Cintas, the leading domestic uniform rental company, when the stock dipped with the market in early February. Cintas has gained share in a large, underpenetrated market for years by offering a superior service and a better product set. After completing our due diligence—which consisted of visiting management and speaking to customers, competitors and former employees—we concluded that the firm's earnings growth could remain "stronger for longer" thanks to a steady shift to hygiene products, which carry higher gross margins and lower incremental capital requirements when compared to its mainstay uniform rental operations. Moreover, Cintas bought competitor G&K and will soon offer its broader product portfolio to those customers. If Cintas can grow hygiene products from 3% of G&K's sales closer to its current average in the teens, we believe it could unlock even more value from the acquisition than many expect.

As always, we remain committed to achieving attractive risk-adjusted returns over a full market cycle by owning a diversified portfolio of companies that we believe could one day grow much larger. We are grateful for your support and look forward to updating you at the conclusion of the second quarter. [B](#)

## Sector Diversification

The Mid-Cap Growth Strategy employs a bottom-up, fundamental approach. Thus, our sector weights result from our opportunity set and research effort. Over the long run, stock selection drives our results. Nonetheless, we believe this analysis helps describe when the strategy's returns might experience a headwind or a tailwind relative to its benchmark over short periods.

- The strategy is underweight consumer discretionary, with less exposure to retail and apparel companies.
- While we have no direct investments in energy, the strategy is exposed to oil price fluctuations through fuel card operators **Fleetcor** and **WEX** (in financial services).
- The strategy is overweight financial services. Within the sector, it leans toward consumer financials and data services companies, and away from REITs, insurance companies and brokerage firms. We do not believe the strategy expresses a bet for, or against, rising interest rates.
- Health care represents our largest overweight, with broad exposure to services, devices and pharma/biotech.
- We are underweight materials and processing. Within the sector, our holdings tilt larger-cap and less cyclical.
- According to our internal classifications, producer durables is nearly in line with the benchmark. **Waste Connections**, unassigned by Russell Global, is listed within producer durables in our internal classification.
- Technology is an underweight, though not by as much as it seems. Internally, we reclassify **Genpact** from producer durables to the technology sector. Within technology, we have a tilt away from high-multiple stocks.
- Internet provider **Cogent** is our only position in utilities.

| RUSSELL GLOBAL SECTORS | MID-CAP GROWTH<br>REP. ACCOUNT (%) | RUSSELL MIDCAP®<br>GROWTH INDEX<br>(%) | DIFFERENCE<br>(%) | MID-CAP GROWTH<br>REP. ACCOUNT (%) |       |
|------------------------|------------------------------------|--|-------------------|------------------------------------|-------|
|                        | Q1'18                              | Q1'18                                  | Q1'18             | Q4'17                              | Q1'17 |
| Consumer Discretionary | 14.82                              | 17.47                                  | -2.65             | 15.25                              | 21.02 |
| Consumer Staples       | 4.15                               | 4.19                                   | -0.03             | 3.12                               | 6.04  |
| Energy                 | --                                 | 2.34                                   | -2.34             | --                                 | --    |
| Financial Services     | 19.05                              | 17.74                                  | 1.31              | 18.80                              | 19.70 |
| Health Care            | 17.36                              | 12.39                                  | 4.97              | 15.97                              | 16.92 |
| Materials & Processing | 6.69                               | 7.44                                   | -0.75             | 6.66                               | 5.27  |
| Producer Durables      | 15.91                              | 16.53                                  | -0.62             | 13.62                              | 10.92 |
| Technology             | 15.67                              | 21.65                                  | -5.97             | 18.42                              | 14.61 |
| Utilities              | 2.39                               | 0.26                                   | 2.13              | 1.88                               | 1.77  |
| Unassigned             | 3.96                               | --                                     | 3.96              | 6.29                               | 3.75  |

## Quarterly Attribution Detail by Sector

- Positive selection effects in most sectors drove our outperformance during the first quarter, with particular success in materials, health care and financial services.
- Our relative gains in the materials sector are best explained by our conservative tilt. We are underweight cyclicals, and they lagged in the first quarter. In fact, machinery, chemicals and energy equipment and services were the three worst-performing subsectors in the benchmark during the period.
- A number of holdings, including **Edwards Lifesciences**, **HealthEquity**, **Agios** and **Cotiviti**, drove outperformance in the health care sector in the first quarter.

| RUSSELL GLOBAL SECTORS | MID-CAP GROWTH<br>REP. ACCOUNT |               | RUSSELL MIDCAP® GROWTH INDEX |               | ATTRIBUTION ANALYSIS        |  |                        |
|------------------------|--------------------------------|---------------|------------------------------|---------------|-----------------------------|--|------------------------|
|                        | AVERAGE WEIGHT<br>(%)          | RETURN<br>(%) | AVERAGE WEIGHT<br>(%)        | RETURN<br>(%) | ALLOCATION<br>EFFECT<br>(%) | SELECTION AND<br>INTERACTION<br>EFFECT (%) | TOTAL<br>EFFECT<br>(%) |
| Consumer Discretionary | 15.68                          | 0.31          | 17.97                        | -2.31         | 0.12                        | 0.42                                       | 0.53                   |
| Consumer Staples       | 3.53                           | 2.17          | 4.09                         | 2.33          | 0.04                        | 0.05                                       | 0.09                   |
| Energy                 | --                             | --            | 2.38                         | -6.85         | 0.23                        | --   | 0.23                   |
| Financial Services     | 18.35                          | 7.01          | 17.29                        | 3.94          | 0.01                        | 0.55                                       | 0.56                   |
| Health Care            | 16.98                          | 8.84          | 12.51                        | 6.04          | 0.17                        | 0.44                                       | 0.61                   |
| Materials & Processing | 6.59                           | 4.14          | 7.73                         | -6.39         | 0.12                        | 0.69                                       | 0.81                   |
| Producer Durables      | 14.73                          | 2.96          | 16.44                        | 1.53          | 0.04                        | 0.18                                       | 0.22                   |
| Technology             | 18.08                          | 7.08          | 21.33                        | 7.50          | -0.07                       | -0.11                                      | -0.18                  |
| Utilities              | 2.17                           | -3.09         | 0.26                         | -4.32         | -0.11                       | 0.03                                       | -0.08                  |
| Unassigned             | 3.88                           | 1.33          | 0.01                         | -3.19         | -0.12                       | 0.10                                       | -0.02                  |
| <b>Total</b>           | <b>100.00</b>                  | <b>4.97</b>   | <b>100.00</b>                | <b>2.18</b>   | <b>0.44</b>                 | <b>2.35</b>                                | <b>2.79</b>            |

## Quarterly Contribution to Return

- **Edwards Lifesciences**' share price snapped back in the first quarter after domestic transcatheter heart valve revenue growth accelerated.
- **Broadridge Financial Solutions** again posted solid results, with particular strength in its proxy and securities processing businesses.
- Email security provider **Mimecast** benefited from the technology sector's outperformance in the first quarter, as well as strong fundamentals.
- **GoDaddy's** domain and business applications segments continue to drive surprisingly high and consistent growth.
- **Electronic Arts** delivered commendable results driven by strength in its FIFA video game franchise (especially within FIFA Ultimate Team and associated "live services") and a steady shift to full-game digital downloads. This helped dissipate fears of weak sales of its new Star Wars game.
- Despite posting commendable fourth-quarter results, trade war chatter and Uber's autonomous vehicle accident in Arizona pressured **Aptiv's** share price. We believe Aptiv's backlog in electronics and advanced driver assist technologies could drive above-market growth through content gains for years. We view success in autonomous vehicles as a "call option" that is not critical to investment success in our three- to five-year time horizon.
- **Welbilt** shares fell during the quarter after the company's fourth-quarter sales missed consensus numbers. We believe its fundamentals are improving and added to our position on weakness.
- Expectations for **Woodward's** power end market declined considerably over the last six months, led lower by the firm's main customer—General Electric. An expense timing issue also put its upward margin progression in doubt. The power issues appear secular, but we expect the expense timing issue to reverse.
- Although **Liberty Formula One's** share price fell during the quarter, we believe the long-term business fundamentals are still in place and added to our position on weakness.
- **Cavium's** share price fell 5% after rising meaningfully in November of 2017 on news that Marvell will acquire the company.

## Portfolio Activity

- While we changed a number of small positions in the portfolio during the first quarter, dollar turnover remained within historical norms.
- We bought shares of **Aptiv** after it split from Delphi Technologies. We think the firm's backlog and expertise in advanced driver assist systems will drive above-market growth for several years.
- We built a position in **Bank United**, which operates in Florida and New York. Bank United was an existing Small-Cap Growth holding.
- We built a position in **Cintas**, the leading uniform rental company in the U.S. We believe Cintas will continue to grow revenue and margins by cross-selling hygiene products into its large customer base. We think it will do the same with recently acquired accounts from G&K.
- We bought shares of **Calavo** (an avocado broker), **HealthEquity** (an HSA administrator) and **Welbilt** (a maker of commercial kitchen equipment) concurrently in both Small-Cap Growth and Mid-Cap Growth during the quarter.
- We sold shares of **MACOM Technology Solutions**, **TripAdvisor** and **Chipotle** due to fundamental concerns.
- We exited **ANSYS** due to valuation.
- Cisco completed its acquisition of **BroadSoft** in the first quarter.
- We sold small positions in **Acxiom**, **Crown Castle**, **ESCO**, **Maximus** and **PriceSmart** to fund other opportunities.

| MID-CAP GROWTH REP.ACCOUNT<br>TOP FIVE CONTRIBUTORS    |  |                       |               |                                  |
|--|--|-----------------------|---------------|----------------------------------|
| TICKER   | NAME   | AVG.<br>WEIGHT<br>(%) | RETURN<br>(%) | CONTRIBUTION<br>TO RETURN<br>(%) |
| EW   | Edwards Lifesciences Corporation                       | 2.49                  | 23.79         | 0.52                             |
| BR   | Broadridge Financial Solutions, Inc.                   | 2.45                  | 21.51         | 0.49                             |
| MIME   | Mimecast Limited                                       | 1.81                  | 23.58         | 0.39                             |
| GDDY   | GoDaddy, Inc. Class A                                  | 1.41                  | 22.16         | 0.28                             |
| EA   | Electronic Arts Inc.                                   | 2.01                  | 15.40         | 0.28                             |
| MID-CAP GROWTH REP.ACCOUNT<br>BOTTOM FIVE CONTRIBUTORS |  |                       |               |                                  |
| APTV   | Aptiv PLC  | 1.37                  | -8.96         | -0.20                            |
| WBT  | Welbilt Inc  | 0.70                  | -15.91        | -0.16                            |
| WWD  | Woodward, Inc.   | 1.77                  | -6.20         | -0.15                            |
| FWONA  | Liberty Media Corporation Series A Liberty Formula One | 1.02                  | -10.48        | -0.12                            |
| CAVM   | Cavium, Inc.   | 2.48                  | -5.31         | -0.10                            |

| MID-CAP GROWTH REP.ACCOUNT<br>PORTFOLIO ACTIVITY |   |                        |
|--|---|------------------------|
| ADDITIONS  |   | SECTOR                 |
| APTV   | Aptiv PLC                                       | Consumer Discretionary |
| BKU  | BankUnited, Inc.                                | Financials             |
| BAH  | Booz Allen Hamilton Holding Corporation Class A | Information Technology |
| CVGW   | Calavo Growers, Inc.                            | Consumer Staples       |
| CTAS   | Cintas Corporation                              | Industrials            |
| HQY  | HealthEquity Inc                                | Health Care            |
| WBT  | Welbilt Inc                                     | Industrials            |
| DELETIONS  |   | SECTOR                 |
| ACXM   | Acxiom Corporation                              | Information Technology |
| ANSS   | ANSYS, Inc.                                     | Information Technology |
| BSFT   | BroadSoft, Inc.                                 | Information Technology |
| CMG  | Chipotle Mexican Grill, Inc.                    | Consumer Discretionary |
| CCI  | Crown Castle International Corp                 | Real Estate            |
| ESE  | ESCO Technologies Inc.                          | Industrials            |
| MTSI   | MACOM Technology Solutions Holdings, Inc.       | Information Technology |
| MMS  | MAXIMUS, Inc.                                   | Information Technology |
| PSMT   | PriceSmart, Inc.                                | Consumer Staples       |
| TRIP   | TripAdvisor, Inc.                               | Consumer Discretionary |

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

## GLCS Sector Diversification

| SECTOR                     | MID-CAP GROWTH<br>REP. ACCOUNT (%) | RUSSELL MIDCAP®<br>GROWTH INDEX<br>(%) | DIFFERENCE<br>(%) | MID-CAP GROWTH<br>REP. ACCOUNT (%) |        |
|----------------------------|------------------------------------|--|-------------------|------------------------------------|--------|
|                            | Q1 '18                             | Q1 '18                                 | Q1 '18            | Q4 '17                             | Q1 '17 |
| Consumer Discretionary     | 11.81                              | 16.77                                  | -4.96             | 11.81                              | 15.89  |
| Consumer Staples           | 5.01                               | 4.19                                   | 0.82              | 4.95                               | 7.73   |
| Energy                     | --                                 | 2.34                                   | -2.34             | --                                 | --     |
| Financials                 | 3.48                               | 7.49                                   | -4.01             | 2.61                               | 1.82   |
| Health Care                | 17.32                              | 13.32                                  | 4.00              | 15.97                              | 16.92  |
| Industrials                | 21.44                              | 17.20                                  | 4.24              | 19.19                              | 19.44  |
| Information Technology     | 30.21                              | 29.53                                  | 0.68              | 34.32                              | 29.56  |
| Materials                  | 5.08                               | 5.78                                   | -0.70             | 5.02                               | 2.82   |
| Real Estate                | 1.95                               | 3.13                                   | -1.18             | 2.83                               | 2.92   |
| Telecommunication Services | 3.71                               | 0.20                                   | 3.51              | 3.30                               | 2.90   |
| Utilities                  | --                                 | 0.06                                   | -0.06             | --                                 | --     |

## GLCS Quarterly Attribution Detail by Sector

| SECTOR                     | MID-CAP GROWTH<br>REP. ACCOUNT |               | RUSSELL MIDCAP® GROWTH INDEX |               | ATTRIBUTION ANALYSIS        |  |                        |
|----------------------------|--------------------------------|---------------|------------------------------|---------------|-----------------------------|--|------------------------|
|                            | AVERAGE WEIGHT<br>(%)          | RETURN<br>(%) | AVERAGE WEIGHT<br>(%)        | RETURN<br>(%) | ALLOCATION<br>EFFECT<br>(%) | SELECTION AND<br>INTERACTION<br>EFFECT (%) | TOTAL<br>EFFECT<br>(%) |
| Consumer Discretionary     | 12.11                          | -0.24         | 17.18                        | -1.48         | 0.21                        | 0.15                                       | 0.35                   |
| Consumer Staples           | 4.90                           | 4.95          | 4.09                         | 2.20          | 0.02                        | 0.13                                       | 0.15                   |
| Energy                     | --                             | --            | 2.38                         | -6.85         | 0.23                        | --   | 0.23                   |
| Financials                 | 2.60                           | 0.56          | 7.31                         | 4.67          | -0.10                       | -0.08                                      | -0.18                  |
| Health Care                | 16.95                          | 8.82          | 13.49                        | 5.42          | 0.11                        | 0.54                                       | 0.65                   |
| Industrials                | 20.21                          | 3.28          | 17.07                        | 0.91          | -0.01                       | 0.44                                       | 0.43                   |
| Information Technology     | 32.38                          | 7.55          | 29.11                        | 6.85          | 0.24                        | 0.12                                       | 0.36                   |
| Materials                  | 4.94                           | 3.89          | 6.06                         | -7.37         | 0.13                        | 0.56                                       | 0.69                   |
| Real Estate                | 2.34                           | 2.37          | 3.06                         | -4.15         | 0.01                        | 0.21                                       | 0.22                   |
| Telecommunication Services | 3.57                           | -1.59         | 0.21                         | -6.53         | -0.29                       | 0.18                                       | -0.11                  |
| Utilities                  | --                             | --            | 0.05                         | 7.32          | 0.01                        | --   | 0.01                   |
| <b>Total</b>               | <b>100.00</b>                  | <b>4.97</b>   | <b>100.00</b>                | <b>2.17</b>   | <b>0.56</b>                 | <b>2.24</b>                                | <b>2.80</b>            |

# Mid-Cap Growth Equity Composite

| Year  | Composite TotalGross Returns (%) | Composite TotalNet Returns (%) | BenchmarkReturns (%) | Composite 3-Yr AnnualizedStandard Deviation (%) | Benchmark 3-Yr AnnualizedStandard Deviation (%) | Portfolios in Composite at End of Year | Composite Dispersion (%) | Composite Assets (\$USD Millions) | GIPS Firm Assets (\$USD Millions) |
|-------|----------------------------------|--------------------------------|----------------------|---|---|--|--------------------------|-----------------------------------|-----------------------------------|
| 2017  | 23.9                             | 23.1                           | 25.3                 | 9.8   | 10.9  | Five or fewer                          | N/A                      | 48                                | 33,155                            |
| 2016  | 9.3                              | 8.6                            | 7.3                  | 11.0  | 12.2  | Five or fewer                          | N/A                      | 2                                 | 30,417                            |
| 2015  | 7.1                              | 6.3                            | -0.2                 | 10.7  | 11.3  | Five or fewer                          | N/A                      | 1                                 | 43,746                            |
| 2014  | 8.8                              | 8                              | 11.9                 | N/A   | N/A   | Five or fewer                          | N/A                      | 2                                 | 44,772                            |
| 2013  | 38.3                             | 37.3                           | 35.7                 | N/A   | N/A   | Five or fewer                          | N/A                      | 1                                 | 40,739                            |
| 2012* | 8.5                              | 8                              | 3.4                  | N/A   | N/A   | Five or fewer                          | N/A                      | 1                                 | 26,794                            |

- \*Return is for period March 1, 2012 through December 31, 2012.
- 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 Mid Cap Growth Composite is comprised of all discretionary accounts with no material investment restrictions, which invest primarily in the common stock of U.S. medium market capitalization companies. The strategy seeks capital appreciation by managing a concentrated portfolio of companies that offer long-term growth potential. There is not a minimum account market value required for composite inclusion.
  - Effective 1/1/17, a significant cash flow policy was implemented for the Mid Cap Growth composite. Accounts with greater than or equal to 15% external cash flows will be removed from the composite for the entire month that the external cash flow occurred. The account will be added back to the composite the following month, if it meets the composite inclusion requirements. The external cash flow percentage is calculated using beginning market value.
  - Prior to September 1 2016 the composite was named Mid Cap Composite, there was no change in investment strategy.
  - This composite was created in 2014.
  - The benchmark is the Russell Mid Cap Growth – Total Return Index. The Russell Midcap Growth – Total Return Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap Growth – Total Return Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap growth market. The Russell Mid Cap Growth – Total Return 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: 0.90% on the first \$25 million; 0.80% on the next \$25 million; 0.70% on the next \$50 million; and 0.60% on the balance over \$100 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, 2014, and prior, 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.

## 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 Mid-Cap Growth Composite and was obtained through FactSet®. All information and returns shown are as of 3/31/2018 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 Mid-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 Mid-Cap Growth account and is provided as supplemental information. The information provided in this material should not be considered a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. 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. 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 Russell Global Sectors and the Global Industry Classification Standard (GICS®) classification systems. Russell® is a registered trademark of the London Stock Exchange Group. 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.

The Russell Midcap® Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap® Value Index is an unmanaged index considered representative of includes mid-cap value stocks. The Russell Midcap® Growth Index, the Russell Midcap® Value Index and Russell® are trademark/service marks of the London Stock Exchange Group Companies.

Please see composite disclosure statement 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. Statistics are calculated as follows: **Weighted Average**: 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. **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. **Active Share** is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two. 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. The portfolio and benchmark returns provided reflect the sum of the returns of the equity holdings in the portfolio and the benchmark, respectively. The returns exclude cash. 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. **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.