Mid-Cap Growth

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

Third Quarter 2017

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COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL MIDCAP® GROWTH INDEX®
3 MOS.	4.21	4.11	5.28
YTD	18.97	18.44	17.29
1 YR.	18.82	18.08	17.82
3 YR.	15.13	14.33	9.96
5 YR.	17.01	16.20	14.18
ITD (01/03/2012)	15.86	15.07	12.94

The composite performance shown above reflects the Brown Advisory Mid-Cap Growth Equity 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 GROWTH REP. ACCT.	RUSSELL MIDCAP GROWTH INDEX
Weighted Avg. Market Cap.	$12.8 B	$15.0 B
Weighted Median Market Cap.	$8.6 B	$13.0 B
Earnings Growth (3-5 Yr. Est.)	14.7%	15.1%
P/E Ratio (FY2 Est.)	29.4x	27.6x
PEG Ratio	2.0x	1.8x

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Cash & Equivalents	4.0
Waste Connections Inc	3.9
TripAdvisor, Inc.	3.1
Ecolab, Inc.	2.5
HEICO Corp.	2.3
Marriott International, Inc.	2.3
Cotiviti Holdings, Inc.	2.2
Broadridge Financial Solutions, Inc.	2.1
Catalent, Inc.	2.1
TransUnion	2.1
TOTAL	**26.6**

Review & Outlook

The Mid-Cap Growth strategy underperformed its benchmark, the Russell Midcap® Growth Index, during the third quarter. Stock selection in the information technology and health care sectors eroded some, but not all, of our year-to-date relative gains in a rising market.

On the surface, the third quarter might seem similar to the first half of 2017. After all, stocks grinded higher on mostly muted volatility; but the third quarter—and September specifically—marked a change. Talking heads called the late-quarter action "Trump trade 2.0," drawing similarities to the fourth quarter of 2016. That is mostly accurate.

Small-caps bottomed in late August, then shot to new highs as federal tax reform headlines resurfaced. Thanks to that rally, small-caps outpaced large-caps for the quarter, just like they did after the 2016 election. Traditional growth sectors, which drove first-half returns, lagged in the third quarter. The one major difference—banks sat this run out. So, growth actually outpaced value in the mid-cap space during the quarter. By comparison, the Russell Midcap Value® Index topped its Growth counterpart by 5% in the fourth quarter of 2016.

Valuations (measured by our benchmark's forward price-to-earnings ratio) remain above their historical average. Sell-side estimates for earnings growth in 2017 stabilized during the third quarter after waning in the first half; hopes remain for mid- to high-single-digit percentage gains this year with a moderately positive domestic economic backdrop.

While the third-quarter cyclicals rally likely provided a headwind to our relative results, underperformance during this short period was our fault. Three contributors from quarters past—**MACOM**, **Equifax** and **Dexcom**—detracted meaningfully. Clients often ask: do you buy on significant pullbacks? The rather unfulfilling, but accurate, answer is: it depends. Luckily for us, we have three major detractors this quarter (each with a different response) to help bring our process to life.

MACOM, a top-five contributor in the second quarter, reversed course in August after its managers guided third quarter revenue and earnings well below consensus. The stock plummeted 25% the next day.

After questioning MACOM's managers, digging into various product lines and cross-referencing comments from other companies in the space, we concluded the weakness was likely not in one of the company's three major growth initiatives. Since, up until then, MACOM's key "Networks" segment tracked our projections and its growth initiatives seem undeterred, we added to the position with our thesis still intact. As always, as we gather more data, we may increase or decrease the position size.

Equifax's woes have been well publicized. The credit bureau's stock price suffered after the firm announced a massive data breach; it continued lower as more drama unfolded (C-level exec's stock sales, congressional hearings, etc.). We had trimmed our EFX position on valuation near $140 earlier in the quarter; we trimmed again around $110 after the breach. In our view, Equifax operates a "trust" business and customers have one or two alternatives. Since we own a meaningful position in one of those alternatives, TransUnion, and we fear a protracted, lawsuit-filled recovery, we lowered our overall exposure.

Dexcom, which dominates the market for continuous glucose monitors (CGM), took a hit near the end of the quarter after the FDA approved Abbott's competing product with a superior label. We always assumed the "FreeStyle Libre" would gain U.S. approval, just not for both factory calibration and insulin dosing. Since Abbott will offer this consumer-friendly product in pharmacies at a lower price than Dexcom's CGM, we worry that our stable-pricing and new-patient-addition assumptions are at risk (two of our "key metrics"). We are collecting data and evaluating the position now. We have not bought or sold any shares, but we worry that our thesis may be violated.

We now offer our Mid-Cap Growth strategy as a mutual fund. This diversifies the vehicles available for our growing client base beyond the existing separate accounts and UCITS fund. 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 fourth quarter.

Sector Diversification

- Consumer discretionary remains an underweight. Within the sector, we are overweight leisure (travel) and underweight retail and consumer products.
- We trimmed our position in **TreeHouse Foods** during the quarter, reducing our consumer staples exposure.
- While we have no direct investments in energy, we are exposed to oil prices through our positions in fuel-card operators **FLEETCOR** and **WEX**.
- Financials, based upon our internal company classifications which shift financial technology firms from tech into financials, is a modest overweight, with a tilt to consumer-oriented firms.
- We are overweight industrials, but we believe the portfolio's composition is less cyclical than the benchmark's. This is balanced by an underweight in materials.
- According to our internal company classifications, our information technology weight remains in-line with the benchmark.
- Real estate (wireless towers), telecommunications (cable/internet) and utilities all remain in-line with our positioning last quarter.

SECTOR	MID-CAP GROWTH REP. ACCOUNT (%)	RUSSELL MIDCAP® GROWTH INDEX (%)	DIFFERENCE (%)	MID-CAP GROWTH REP. ACCOUNT (%)	
	Q3 '17	Q3 '17	Q3 '17	Q2 '17	Q3 '16
Consumer Discretionary	13.55	17.17	-3.62	13.55	14.05
Consumer Staples	5.07	4.14	0.94	5.07	9.82
Energy	--	2.60	-2.60	--	0.39
Financials	2.60	7.08	-4.47	2.60	1.63
Health Care	16.53	14.21	2.32	16.53	11.26
Industrials	19.55	16.74	2.81	19.55	19.55
Information Technology	31.56	28.02	3.54	31.56	33.44
Materials	4.70	6.46	-1.77	4.70	3.11
Real Estate	3.02	3.32	-0.30	3.02	3.17
Telecommunication Services	3.41	0.22	3.19	3.41	3.59
Utilities	--	0.05	-0.05	--	--

Quarterly Attribution Detail by Sector

- Stock selection in the information technology and consumer discretionary sectors drove our underperformance during the third quarter.
- MACOM guided third quarter results below expectations due to weakness in China; **Acxiom**, **Jack Henry** and what we did not own also dampened our relative performance in information technology in the third quarter.
- Dexcom caused our relative loss in health care during the quarter. The stock took a hit in September after the FDA approved a competing glucose monitor with a superior label.

SECTOR	MID-CAP GROWTH REP. ACCOUNT		RUSSELL MIDCAP® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	13.30	4.73	17.10	3.09	0.10	0.22	0.32
Consumer Staples	5.89	-1.40	4.37	-1.72	-0.09	-0.01	-0.09
Energy	--	--	2.28	5.78	-0.01	--	-0.01
Financials	1.55	2.59	6.97	8.95	-0.19	-0.09	-0.28
Health Care	17.41	-2.14	14.87	0.53	-0.11	-0.46	-0.57
Industrials	18.52	10.28	16.64	6.10	0.03	0.73	0.75
Information Technology	32.05	4.57	27.59	9.41	0.18	-1.49	-1.31
Materials	4.63	-2.22	6.54	3.99	0.02	-0.30	-0.28
Real Estate	3.10	4.27	3.37	4.42	--	--	--
Telecommunication Services	3.53	17.97	0.22	11.39	0.21	0.18	0.40
Utilities	--	--	0.05	48.79	-0.02	--	-0.02
Total	**100.00**	**4.19**	**100.00**	**5.28**	**0.13**	**-1.22**	**-1.09**

Quarterly Contribution to Return

- Strong airline traffic and the resulting growth in **HEICO's** PMA parts business, coupled with a step-up in profitability in its electronics technology business, helped drive its share price higher in the third quarter. The resurgence of federal tax reform hopes also helped.
- **Cogent Communications** reported in-line second quarter results; its stock price climbed in the third quarter in concert with other telecom service providers.
- Drug dosage form maker **Catalent** guided fiscal 2018 revenue and earnings above expectations when it reported solid quarterly results in late August.
- **Waste Connections** posted second quarter results above expectations thanks to 3% price and 2% solid-waste volume growth.
- **Woodward** benefitted from strong aircraft maintenance & defense sales along with signs of improvement in its cyclical industrial business in the third quarter.
- Dexcom's shares took a hit in September after the FDA approved Abbott's competing glucose monitor (dubbed "FreeStyle Libre") with a better label than we—and most others—expected. We believe this is a meaningful change and are re-evaluating the position currently.
- MACOM shares pulled back significantly in August following its second quarter earnings report. While reported results were fine, management's third quarter guidance was meaningfully below expectations due to weakness in China. We believe the issues are temporary and not related to the company's three core growth initiatives; thus, we added on weakness.
- In July, several customers contracted norovirus from one of Chipotle's Virginia locations. Media coverage of this incident led to decreased restaurant traffic across the company's footprint and a dampening of the nascent recovery from prior adverse media coverage.
- TreeHouse posted weaker than expected 2Q results in August, stemming from execution missteps and a deteriorating market backdrop for the company's retail customers.
- Equifax shares fell sharply after it announced a massive data breach. We had trimmed the position earlier in the quarter on valuation; we sold more shares after the breach fearing that diminished trust would impair results for longer than many expect.

MID-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
HEI	HEICO Corporation	2.28	25.01	0.50
CCOI	Cogent Communications Holdings Inc	2.20	23.23	0.48
CTLT	Catalent Inc	2.56	13.73	0.37
WCN	Waste Connections, Inc.	3.92	8.80	0.34
WWD	Woodward, Inc.	1.76	15.05	0.25

MID-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
DXCM	DexCom, Inc.	1.74	-33.12	-0.60
MTSI	MACOM Technology Solutions Holdings, Inc.	2.08	-20.01	-0.43
CMG	Chipotle Mexican Grill, Inc.	0.95	-26.02	-0.31
THS	TreeHouse Foods, Inc.	1.35	-17.09	-0.31
EFX	Equifax Inc.	1.42	-22.66	-0.27

Portfolio Activity

- We believe lock-maker **Allegion** benefits from a secular shift to higher-priced electronic locks, a continued recovery in construction, and an improving competitive landscape.
- **BWX Technologies** is the sole supplier of nuclear propulsion systems to the United States Navy. In our view, it benefits from favorable procurement trends, the introduction of a larger submarine, new content gains, and possibly accelerated aircraft carrier production.
- We think video game-maker **Electronic Arts** will post better-than-expected results thanks to a secular shift in the monetization of video games that could last for several years.
- We built a position in **ESCO** on weakness following what we viewed as a satisfactory quarterly report.
- We believe **Webster Financial**, which owns HSA Bank, will benefit from years of double-digit growth in health savings accounts. In our view, HSA Bank gives Webster a unique source of funds that could make its growth more durable than many expect.
- We exited our positions in **Expedia** and **Fastenal** during the quarter on fundamental concerns. We sold **Orbital ATK** after it exceeded our price target.
- JAB closed its previously announced acquisition of **Panera Bread** during the quarter.

MID-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
ALLE	Allegion PLC	Industrials
BWXT	BWX Technologies, Inc.	Industrials
EA	Electronic Arts Inc.	Information Technology
ESE	ESCO Technologies Inc.	Industrials
WBS	Webster Financial Corporation	Financials
DELETIONS		**SECTOR**
EXPE	Expedia, Inc.	Information Technology
FAST	Fastenal Company	Industrials
OA	Orbital ATK, Inc.	Industrials
PNRA	Panera Bread Company Class A	Consumer Discretionary

Mid-Cap Growth Equity 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	9.3	8.6	7.3	11	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 May 1, 2012 through December 31, 2012.

Brown Advisory claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory has been independently verified for the periods from January 1, 1993 through December 31, 2016. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

1. For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The 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. Prior to September 1 2016 the composite was named Mid Cap Composite, there was no change in investment strategy.
3. This composite was created in 2014.
4. 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.

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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: 0.90% 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.
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, 2014, and prior, 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.
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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 9/30/2017 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet. This information is based on a representative Global Leaders 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 movementsand 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.

The Russell Midcap® Growth Index s 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. **P/E / Growth Ratio**, or **PEG Ratio**, is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate. 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.