

# Small-Cap Fundamental Value

## QUARTERLY STRATEGY UPDATE

First Quarter 2018

### COMPOSITE PERFORMANCE(%)

|                     | COMPOSITE<br>GROSS OF<br>FEES | COMPOSITE<br>NET OF<br>FEES | RUSSELL<br>2000®<br>VALUE<br>INDEX |
|---------------------|-------------------------------|-----------------------------|------------------------------------|
| 3 MOS.              | -2.05                         | -2.24                       | -2.64                              |
| 1 YR.               | 10.22                         | 9.33                        | 5.13                               |
| 3 YR.               | 8.42                          | 7.57                        | 7.87                               |
| 5 YR.               | 11.95                         | 11.08                       | 9.96                               |
| ITD<br>(12/31/2008) | 16.35                         | 15.27                       | 12.63                              |

The composite performance shown above reflects the Brown Advisory Small-Cap Fundamental Value 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

|                                      | SMALL-CAP<br>FUND. VALUE<br>REP. ACCT.. | RUSSELL 2000®<br>VALUE INDEX |
|--------------------------------------|---|------------------------------|
| Weighted Avg.<br>Market Cap.         | \$2.7 B                                 | \$2.0 B                      |
| Weighted<br>Median<br>Market Cap.    | \$2.1 B                                 | \$1.8 B                      |
| Earnings<br>Growth (3-5 Yr.<br>Est.) | 11.1%                                   | 11.8%                        |
| P/E Ratio<br>(FY2 Est.)              | 15.1x                                   | 13.6x                        |
| Portfolio<br>Turnover (3 YR<br>Avg.) | 31.1%                                   | --                           |

### REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

| SECURITY                            | % PORTFOLIO |
|-------------------------------------|-------------|
| Albany International Corp. Cl A     | 4.8         |
| Cash & Equivalents                  | 4.5         |
| Linn Energy, Inc.                   | 4.1         |
| Echostar Corp.                      | 3.8         |
| McGrath RentCorp                    | 3.5         |
| Simpson Manufacturing Co.,<br>Inc.  | 3.0         |
| Virtus Investment Partners,<br>Inc. | 2.8         |
| Nexstar Media Group, Inc.           | 2.6         |
| Primerica, Inc.                     | 2.6         |
| BankUnited, Inc.                    | 2.4         |
| <b>TOTAL</b>                        | <b>34.0</b> |



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## Review & Outlook

The first quarter of 2018 was packed with a number of macro themes. Positives included the initial impact of tax cuts and broad consensus around global growth; negatives included potential early signs of inflation and a potential trade war. Ironically, the net impact of these factors were fairly muted until the last few weeks of the quarter. Small-cap value stocks ended down 2.7% for the quarter (as measured by our benchmark, the Russell 2000® Value Index), in contrast to the gains in large-cap and small-cap growth stocks.

Our strategy also declined during the quarter, but we outperformed the benchmark by a small margin. The strategy generated the bulk of its alpha in the second half of the quarter when the portfolio's defensive characteristics helped us, but weakness in two investments hampered the portfolio's results.

We have received a number of questions from clients about the impact of tax reform on projected corporate results. After compiling the data from our management teams, what struck us was that the most pronounced and consistent benefit came within the financial sector. Among our financial investments, the average tax rate dropped from 35% to 23%. This represented the broadest and most consistent decline compared to the other sectors in the portfolio. Interestingly, within the Index, the only sectors that posted positive performance for the quarter were health care and financials.

Industrials and energy once again contributed positively to quarterly results, reflecting underlying positive company fundamentals. **McGrath** was especially strong; its Adler tank business posted solid results, as did its larger modular rental business. Information technology also aided our results due to the announced takeover of **DST** by **SS&C Technologies**. Although a small weighting, **Providence Services** drove strong results in health care. Real estate and consumer were notable sources of weakness for the quarter, due to poor performance from **Colony NorthStar** and **Core-Mark**, respectively.

While we do not typically highlight sector weightings, we want to note that our REIT exposure has grown over the past several years to nearly 10% of the portfolio. REIT shares have been under particular pressure from broader interest rate moves. While we have been using the downturn to review a number of potential investments, our increased weighting actually reflects several corporate changes (and corresponding sector changes) along with several small investments. Specifically, **Forest City** is now classified as a REIT, after shifting its structure (it was previously a C-corp in the financial sector), and **Deltic Timber** (another C-corp in the materials segment) completed its merger with **Potlatch** and is now a timber REIT. **Colony NorthStar** was also classified as a financial prior to its merger.

Clients have also asked us about potential impacts of higher steel prices due to the recent announcement of potential tariffs. In general, we believe our industrial portfolio is well-protected, although we have had one company highlight that rising steel prices could weigh on its near-term gross margins. We are attuned to other potential impacts on the portfolio from tariffs. Another policy discussion that we continue to monitor is the ethanol market. Given the turmoil in the EPA and some of the recent waivers granted by the agency, we are watching for potential changes to the renewable fuel standards (RFS) and renewable identification number (RIN) markets. Changes in these markets could impact several portfolio investments, ranging from the energy sector to the convenience store sector.

We made three new investments in the quarter. Within the financial sector, we made two new investments in regional banks **Washington Federal** and **Central Pacific**. These were partially funded by trimming other financial holdings that have performed well. In addition, we invested in **Extended Stay America**, a consumer discretionary company with a relatively unique offering in the hospitality industry. **Extended Stay** emerged from bankruptcy in 2010 with a fairly complicated corporate structure that offers a number of potential value-enhancing options. [12](#)

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

## Sector Diversification

- Our consumer discretionary weighting fell when one of our holdings, **Liberty Interactive**, acquired GCI and subsequently split off **GCI Liberty** as a separate entity. GCI Liberty is classified as a telecommunication services company and increases our weighting in that sector.
- Our weighting in the energy sector increased during the period as we added to our investment in **REX American**.
- The merger of Deltic Timber and Potlatch also impacted our sector weightings. The new merger created PotlatchDeltic, which is now categorized as a REIT.

| SECTOR                     | SMALL-CAP FUNDAMENTAL<br>VALUE REP. ACCOUNT (%) | RUSSELL 2000®<br>VALUE INDEX (%) | DIFFERENCE<br>(%) | SMALL-CAP FUNDAMENTAL VALUE<br>REP. ACCOUNT (%) |        |
|----------------------------|---|----------------------------------|-------------------|---|--------|
|                            | Q1 '18  | Q1 '18                           | Q1 '18            | Q4 '17  | Q1 '17 |
| Consumer Discretionary     | 16.44   | 10.93                            | 5.51              | 17.17   | 16.36  |
| Consumer Staples           | 1.08  | 2.17                             | -1.09             | 1.07  | 1.20   |
| Energy                     | 6.17  | 5.76                             | 0.41              | 5.87  | 2.43   |
| Financials                 | 29.25   | 31.48                            | -2.23             | 27.89   | 31.43  |
| Health Care                | 2.41  | 6.90                             | -4.49             | 1.96  | 2.41   |
| Industrials                | 19.43   | 12.97                            | 6.46              | 19.28   | 15.28  |
| Information Technology     | 10.64   | 8.86                             | 1.78              | 10.57   | 11.35  |
| Materials                  | 1.68  | 4.28                             | -2.60             | 5.95  | 6.92   |
| Real Estate                | 9.74  | 9.91                             | -0.17             | 8.69  | 9.40   |
| Telecommunication Services | 2.53  | 0.45                             | 2.08              | 1.00  | 2.78   |
| Utilities                  | 0.62  | 6.28                             | -5.66             | 0.56  | 0.45   |

## Quarterly Attribution Detail by Sector

- We saw outperformance across a number of sectors during the first quarter.
- Industrials, information technology and financials had the strongest relative performance, while consumer discretionary and real estate had the weakest.
- Health care and financials were the only sectors with positive returns within the Russell 2000 Value Index for the quarter.

| SECTOR                     | SMALL-CAP FUNDAMENTAL VALUE<br>REP. ACCOUNT |               | RUSSELL 2000®<br>VALUE 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     | 17.18                                       | -6.70         | 10.89                        | -1.98         | 0.01                        | -0.84                                      | -0.84                  |
| Consumer Staples           | 1.12  | -1.73         | 2.61                         | -7.03         | 0.08                        | 0.06                                       | 0.14                   |
| Energy                     | 5.74  | -7.12         | 5.94                         | -10.19        | 0.09                        | 0.10                                       | 0.20                   |
| Financials                 | 28.66                                       | 2.28          | 31.20                        | 0.45          | -0.08                       | 0.53                                       | 0.45                   |
| Health Care                | 2.18  | 19.66         | 6.78                         | 5.31          | -0.34                       | 0.30                                       | -0.04                  |
| Industrials                | 19.48                                       | 1.76          | 12.89                        | -2.26         | 0.03                        | 0.77                                       | 0.81                   |
| Information Technology     | 10.91                                       | 1.41          | 8.89                         | -2.97         | 0.02                        | 0.41                                       | 0.43                   |
| Materials                  | 4.04  | -5.99         | 4.57                         | -5.53         | 0.23                        | -0.31                                      | -0.09                  |
| Real Estate                | 8.78  | -18.05        | 9.67                         | -8.41         | 0.14                        | -1.03                                      | -0.89                  |
| Telecommunication Services | 1.37  | 6.09          | 0.48                         | -10.84        | -0.10                       | 0.26                                       | 0.16                   |
| Utilities                  | 0.54  | -12.16        | 6.07                         | -5.87         | 0.21                        | -0.03                                      | 0.18                   |
| <b>Total</b>               | <b>100.00</b>                               | <b>-2.14</b>  | <b>100.00</b>                | <b>-2.66</b>  | <b>0.30</b>                 | <b>0.22</b>                                | <b>0.52</b>            |

## Quarterly Contribution to Return

- McGrath's performance stemmed from both internal and market-based drivers. Internally, the company has improved its margins by focusing on higher-returning markets and product lines. Externally, we saw an improvement in its lagging tank rental business, alongside continued strong performance from its main modular rentals business.
- **National General Holdings Corp.** reported strong quarterly earnings that exceeded consensus expectations. Specifically, it posted stronger-than-expected premium growth and combined ratios across its property and casualty and its accident and health businesses, which pushed earnings (ex. catastrophe losses) higher. Additionally, the company filed its Form 10-K on time and with a clean audit opinion, alleviating a concern for some investors following the company's delayed 10-K filing last year due to material weaknesses in documentation.
- DST Systems rose meaningfully in January when SS&C Technologies Group announced it would acquire DST at a 29% premium. We have owned DST since 2009. Over the past decade, it has aggressively sold noncore assets and repurchased 49% of its outstanding shares. The shares have appreciated 305% over this time period, despite the fact that the company's core business showed only modest growth.
- **Denny's** was up during the first quarter on news of solid earnings and ongoing share repurchases. Same-store sales accelerated to more than 2%, a good result in a highly competitive marketplace.
- **Broadridge** reported strong second quarter results in February.
- Colony NorthStar fell notably when it announced a material reduction in its dividend from \$1.08 annualized to \$0.44. Although our cash flow analysis suggested a dividend cut was imminent, the reduction exceeded our expectations.
- **EchoStar** was down despite higher-than-expected fourth quarter subscriber additions on its consumer broadband business. The market is worried about increased competition from its largest competitor, Viasat, which launched broadband service on its new satellite at the end of February.
- Core-Mark faced operational issues related to rapidly onboarding new large account wins (7-Eleven in particular). This caused persistently elevated expenses beyond expectations, limited leverage on sales growth and thus pressured EBITDA growth. Weakening cigarette sales, mostly due to a meaningful excise tax increase in California, put additional pressure on margins. At the same time, the company had to manage deleveraging associated with lost accounts.
- Forest City Realty concluded its strategic review and determined that the company can best create long-term value by continuing its current strategy and not through a sale of the company. The market was disappointed by this news. The board passed on bids for the company at approximately \$26 per share. We continue to believe that there is significant unrecognized value in Forest City.
- **Nexstar Media Group** declined, along with the other broadcast TV stocks, on uncertainty around the health of the advertising environment and longer-term worries over the sustainability of growth in retransmission revenues. However, Nexstar reported strong fourth quarter results, with better-than-peer core advertising revenue growth of over 3% on a same-station basis and 20% growth in retransmission revenues. The stock was down 15% during the quarter versus an average decline across the broadcast group of approximately 20%.

| SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT<br>TOP FIVE CONTRIBUTORS    |                                      |                 |            |                            |
|--|--------------------------------------|-----------------|------------|----------------------------|
| TICKER   | NAME                                 | AVG. WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
| MGRC   | McGrath RentCorp                     | 3.37            | 14.88      | 0.46                       |
| NGHC   | National General Holdings Corp.      | 1.74            | 23.98      | 0.39                       |
| DST  | DST Systems, Inc.                    | 1.48            | 34.77      | 0.37                       |
| DENN   | Denny's Corporation                  | 2.33            | 16.54      | 0.33                       |
| BR   | Broadridge Financial Solutions, Inc. | 1.47            | 21.51      | 0.29                       |
| SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT<br>BOTTOM FIVE CONTRIBUTORS |                                      |                 |            |                            |
| CLNS   | Colony NorthStar, Inc. Class A       | 1.33            | -49.79     | -0.90                      |
| SATS   | EchoStar Corporation Class A         | 4.32            | -11.90     | -0.54                      |
| CORE   | Core-Mark Holding Company, Inc.      | 1.18            | -32.38     | -0.50                      |
| FCE.A  | Forest City Realty Trust Inc Class A | 2.81            | -15.21     | -0.47                      |
| NXST   | Nexstar Media Group, Inc. Class A    | 2.97            | -14.53     | -0.45                      |

## Portfolio Activity

- Central Pacific Financial (CPF) is a high-quality bank in attractive Hawaiian markets trading for approximately 1.6x tangible book value. It is the fourth-largest bank in Hawaii by deposit market share (third largest public player). The absence of larger players in Hawaii allows CPF and its peers to enjoy loan-deposit ratios nearly 20 to 30 points below the national median and deposit costs at a 40% discount to mainland banks. Over the last four years, the bank has used net income and excess capital to retire nearly a third of its shares outstanding, and it has steadily increased its quarterly dividend from 8 cents a share in 2013 to 19 cents a share currently. With nonaccruals at only 7 basis points and a healthy reserve level relative to peers, we believe that a combination of benign net charge-off experience and excess reserve release could provide a tailwind to an already steady core earnings growth story. While we wait for the market to re-rate the stock, CPF is supported by a robust capital return plan, and we anticipate that nearly 100% of net income will be returned to shareholders through share buybacks and dividends in coming quarters.
- Extended Stay America (STAY) is an owner and operator of economy, long-term stay hotels across the U.S. The company employs a “Paired Share” corporate structure, reflecting two different underlying businesses housed in one company, a PropCo (structured as a REIT) that owns its 625 Extended Stay America hotels and an OpCo that operates, manages and will soon develop those assets. We believe that the market is currently mispricing STAY based on improving fundamentals and free cash flow under the current structure, and that in the long-term, there is an opportunity to create significant shareholder value by splitting the PropCo and OpCo into two separate companies. Recent events set the stage for this scenario. The entire hotel base was renovated over five years for \$600 million. This was recently completed, and we expect a resulting ramp in free cash flow of more than \$100 million this year. Last year, its PE owners Blackstone, Centerbridge and Paulson fully exited the company, and it reconstituted its board with four new directors. Finally, the company commenced its refranchising efforts in early 2018.
- Washington Federal (WAFD) is a conservatively run, overcapitalized bank. It serves as a nice complement to our other banks. Its balance sheet is effectively neutral to rising interest rates. It has strong credit quality, a long history of conservative operations and meaningful overcapitalization that supports robust capital return and provides a cushion to equity shareholders should macroeconomic conditions turn unfavorable. In effect, this is a self-described “sleepy” bank that is being overlooked by investors because it is not exciting, asset sensitive or “growth.” It has quietly repurchased nearly a quarter of its shares outstanding since 2013, returned nearly 100% of net income to shareholders over that same time period and grown organically with only one (pending) whole bank acquisition in the last five years that accounts for only 3% of pro forma assets. Despite this laundry list of favorable characteristics, the bank trades at a discount to peers on both an earnings and a tangible book value basis.
- We received shares of Potlatch (PCH) after the completion of the company’s merger with Deltic Timber (DEL).
- We eliminated our investment in **Cato** (CATO); we had been trimming the position for some time and felt that retail headwinds would continue to weigh on the company’s cash flows.
- We acquired **First Horizon National Corp** (FHN) after the company finalized its merger with Capital Bank Financial last quarter.

| SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT<br>PORTFOLIO ACTIVITY |                                    |                        |
|--|------------------------------------|------------------------|
| ADDITIONS  |                                    | SECTOR                 |
| CPF  | Central Pacific Financial Corp.    | Financials             |
| STAY   | Extended Stay America, Inc.        | Consumer Discretionary |
| WAFD   | Washington Federal, Inc.           | Financials             |
| SHARES RECEIVED FROM CORPORATE ACTIONS                         |                                    |                        |
| PCH  | PotlatchDeltic Corporation         | Real Estate            |
| DELETIONS  |                                    | SECTOR                 |
| CATO   | Cato Corporation Class A           | Consumer Discretionary |
| DEL  | Deltic Timber Corporation          | Materials              |
| FHN  | First Horizon National Corporation | Financials             |

# Small-Cap Fundamental Value 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 | 13.3                              | 12.4                            | 7.8                   | 12.2   | 14.0   | 47                                     | 0.3                      | 1,806                             | 33,155                            |
| 2016 | 23.4                              | 22.4                            | 31.7                  | 13.0   | 15.5   | 46                                     | 0.3                      | 1,660                             | 30,417                            |
| 2015 | -4.6                              | -5.3                            | -7.5                  | 12.3   | 13.5   | 45                                     | 0.2                      | 1,186                             | 43,746                            |
| 2014 | 7.1                               | 6.3                             | 4.2                   | 10.7   | 12.8   | 41                                     | 0.4                      | 1,002                             | 44,772                            |
| 2013 | 42.0                              | 41.0                            | 34.5                  | 14.1   | 15.8   | 32                                     | 0.3                      | 693                               | 40,739                            |
| 2012 | 23.0                              | 21.9                            | 18.1                  | 17.7   | 19.9   | 13                                     | 0.1                      | 269                               | 26,794                            |
| 2011 | 2.9                               | 1.9                             | -5.5                  | 20.6   | 26.1   | 9                                      | 0.6                      | 190                               | 19,962                            |
| 2010 | 28.3                              | 26.7                            | 24.5                  | NA   | NA   | Five or fewer                          | N/A                      | 61                                | 16,859                            |
| 2009 | 25.7                              | 24                              | 20.6                  | NA   | NA   | Five or fewer                          | N/A                      | 30                                | 11,058                            |

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- \*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 Small-Cap Fundamental Value Composite includes all discretionary portfolios invested in the Small Cap Fundamental Value Strategy. The strategy invests primarily in U.S. smaller market capitalization equities that generate high levels of free cash flow and are currently undervalued by the market. The minimum account market value required for composite inclusion is \$1.5 million.
- This composite was created in 2009.
- The benchmark is the Russell 2000® Value Index. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The Russell 2000® Value 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: 1.00% on the first \$25 million; 0.90% on the next \$25 million; 0.80% on the next \$50 million; and 0.70% 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, 2009 and December 31, 2010 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 is not indicative of future results.
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Composite performance is based on the Brown Advisory Small-Cap Fundamental Value 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 Small-Cap Fundamental Value account and is provided as supplemental information. Account characteristics exclude cash and cash equivalents; top 10 holdings list excludes cash and cash equivalents. FactSet® is a registered trademark of FactSet Research Systems, Inc.

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### 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**: equals 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. **Earnings Growth 3-5 Year Estimate** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by First Call, I/B/E/S Consensus, and Reuters, calculated according to each broker's methodology. **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. **Portfolio Turnover (3 yr. avg)** 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. 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. 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. Numbers may not total due to rounding.