

Small-Cap Fundamental Value

QUARTERLY STRATEGY UPDATE

Fourth Quarter 2017

COMPOSITE PERFORMANCE(%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 2000® VALUE INDEX
3 MOS.	4.64	4.44	2.05
1 YR.	13.31	12.40	7.84
3 YR.	10.09	9.23	9.55
5 YR.	15.22	14.33	13.01
ITD (12/31/08)	17.11	16.02	13.34

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 FUND. VALUE REP. ACCT..	RUSSELL 2000® VALUE INDEX
Weighted Avg. Market Cap.	\$3.2 B	\$2.1 B
Weighted Median Market Cap.	\$2.0 B	\$1.8 B
Portfolio Turnover (3 Yr. Avg.)	29.5%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Albany International Corp. Cl A	4.7
Cash & Equivalents	4.2
Echostar Corp.	4.2
Linn Energy, Inc.	3.6
Forest City Realty Trust, Inc. Cl A	3.2
Primerica, Inc.	3.1
McGrath RentCorp	3.0
Nexstar Media Group, Inc.	3.0
Deltic Timber Corp.	2.8
Synovus Financial Corp.	2.7
TOTAL	34.5



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Review & Outlook

After a lackluster start in 2017, small-cap stocks rebounded during the last three or four months of the year. In particular, the rally was driven by both positive fundamental results within cyclical sectors, as well as the anticipation and eventual passage of the tax overhaul. Although small-cap value shares trailed both the broader markets and small-cap growth companies by a considerable margin, the strategy's benchmark, the Russell 2000® Value Index, did produce a 7.8% return for the year after a rebound from its lows in late August.

The strategy posted solid results for the quarter and for the year in absolute terms, and was comfortably ahead of its benchmark for both periods. The second and especially the fourth quarters were our strongest, while we were flat or up modestly in the other two quarters. While the strategy did experience a number of corporate actions, generally strong operating results across our industrial and energy holdings drove performance.

Both the year and quarter were marked by a fairly wide dispersion of returns among sectors, subsectors and their respective constituents. For the year, the health care sector was up over 30%, while the energy and telecom sectors were down 20% and 26%, respectively.

Our strategy's performance for the year was driven by results within the industrial sector, where a number of our larger positions posted excellent results during a strong cyclical recovery, and within the energy sector, where the weakness of many energy companies contrasted with the strong performance of the companies we own. **Albany International**, our largest position, appreciated nearly 35% for the year, as it continued to benefit from strong growth in LEAP engine production. **Kadant's** shares were up 65% for the year due to a combination of solid results from its core business and recent acquisitions, as well as a growing understanding of the size and profitability of its aftermarket parts business.

Consumer discretionary and telecom were our biggest detractors for the full-year period. Within consumer discretionary, **Core-Mark** suffered from a combination of lost rebids on several contracts, and challenges in achieving operating leverage on new business won. In general, our consumer discretionary investments failed to keep up with the sector's performance, especially within gaming and in retailing (the latter benefiting from strong year-end positive sentiment). Within the telecom sector, our investment in **ATN International** was materially impacted by the hurricanes that hit the U.S. Virgin Islands.

For the quarter, technology and industrials were the strongest contributors, while consumer discretionary and energy were the largest detractors. **Simpson Manufacturing** was up materially in the quarter on the announcement of a concrete plan to improve margins, working capital and ROIC. In addition, a number of our larger IT services businesses, including **Broadridge** and **DST**, benefited from multiple expansion. Conversely, **Casey's General Stores'** rural convenience store business was impacted by the slowdown in the farm economy. Finally, energy shares of exploration and production (E&P) companies rallied at the end of the quarter and outperformed our energy investments.

While there was a fair amount of merger and acquisition activity during the year, only a few transactions were of notable consequence. Early in the year, **Air Methods** announced its sale to private equity buyers. This had been in the works for some time. The premium it paid helped our health care investments keep pace with the dramatic rise of the sector during the year. In addition, **Deltic Timber**, after a thorough review of its options, announced that it was selling itself to a timber REIT. We were pleased with the valuation we received, but are also keenly interested in the equity of the acquiring company. A number of other announcements were related to smaller holdings in the portfolio, and generated solid, albeit relatively modest, impacts. Some of these positions were intentionally small, but one, **State National**, was simply small due to the timing of our initial investment and the subsequent run-up in the shares following a rumor of its sale.

We continue to focus on the implications of the recent changes to the tax code on the net income and cash flows of our portfolio companies. Based on our understanding of the legislation, as well as discussions with our portfolio companies' management teams, it is clear that after-tax net income and cash flows will rise. However, our management teams are still working through the impact of any offsets. Finally, we have to evaluate the revised results in the context of a significant expansion of valuations over the past 15 months. Given the opaque outcomes, we have not made any material changes to the portfolio due to the tax bill, but believe that our management teams should soon be in a position to give some guidance into what the short- and medium-term impacts will be.

Activity was relatively heavy at the end of the quarter. We made four new investments. After surveying the carnage within the retail space, we made an investment in one retailer, **DSW**, a 500-store footwear retailer. We also made an investment in **REX American Resources**, which operates some of the most efficient ethanol facilities in the country. Other investments included **Landmark Infrastructure Partners**, an MLP focused on cell towers, and **Consolidated-Tomoka Land Co.**, a C-corp that is liquidating its undeveloped land portfolio and converting to an REIT. We did receive shares through several M&A transactions that we either sold or are in the process of selling. Other than sales due to M&A transactions, the only investment we sold outright was **Carriage Services**, a funeral home business, due to valuation.

While valuations are high for the market overall, we are excited about our pipeline due to the wide dispersion of results throughout the year and the variation of valuations that this has created. **B**

Sector Diversification

- The weighting within the consumer discretionary sector increased as we initiated a new position in DSW Inc.
- Our energy weighting saw an increase due to positive performance from **Linn Energy**. We also initiated a new position, REX American Resources.
- Our weighting in the telecom sector decreased as we sold our position in **Hawaiian Telecom**. We also trimmed our position in ATN International.

SECTOR	SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT (%)	RUSSELL 2000® VALUE INDEX (%)	DIFFERENCE (%)	SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT (%)	
	Q4 '17	Q4 '17	Q4 '17	Q3 '17	Q4 '16
Consumer Discretionary	17.17	10.98	6.19	16.26	16.26
Consumer Staples	1.07	2.73	-1.66	1.09	1.62
Energy	5.87	6.06	-0.19	4.98	2.26
Financials	27.89	30.40	-2.51	28.71	31.99
Health Care	1.96	6.19	-4.23	1.91	3.11
Industrials	19.28	12.79	6.48	19.36	13.71
Information Technology	10.57	8.98	1.59	10.84	10.10
Materials	5.95	4.49	1.46	6.06	7.57
Real Estate	8.69	10.36	-1.67	8.85	9.73
Telecommunication Services	1.00	0.50	0.50	1.31	3.24
Utilities	0.56	6.52	-5.96	0.62	0.41

Quarterly Attribution Detail by Sector

- We saw outperformance across a number of sectors during the fourth quarter.
- Industrials and information technology had the strongest relative performance, while consumer staples and energy had the weakest.

SECTOR	SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT		RUSSELL 2000® VALUE INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	16.44	7.32	10.54	6.83	0.29	0.07	0.37
Consumer Staples	1.11	2.51	2.66	6.01	-0.06	-0.04	-0.10
Energy	5.39	3.10	5.58	6.26	0.05	-0.20	-0.15
Financials	28.52	2.97	30.98	0.77	0.05	0.59	0.64
Health Care	1.92	8.08	6.10	-0.19	0.10	0.15	0.26
Industrials	19.52	7.79	12.54	4.55	0.16	0.65	0.81
Information Technology	10.84	7.86	9.15	-0.24	-0.03	0.85	0.82
Materials	5.96	3.06	4.31	3.66	0.03	-0.03	-0.01
Real Estate	8.66	-1.68	10.84	-1.20	0.06	-0.05	0.01
Telecommunication Services	1.07	5.18	0.55	-7.39	-0.04	0.13	0.09
Utilities	0.57	-4.30	6.75	0.52	0.09	-0.03	0.06
Total	100.00	4.85	100.00	2.05	0.71	2.09	2.80

Quarterly Contribution to Return

- **Primerica** saw continued strength in the fourth quarter following reported earnings that exceeded consensus expectations.
- **Nexstar** rose on strong third-quarter reported results and expectations for continued improvement in core advertising growth in the fourth quarter. Since the close of the Media General acquisition in January, the company has repurchased \$100 million of stock and reduced its debt outstanding by more than \$100 million. In addition, in the fourth quarter, the FCC voted to reduce restrictions around local television ownership and initiated a Proposed Rulemaking proceeding to re-evaluate the national local television ownership cap of 39% reach of the U.S. population. Both regulatory developments benefit players with scale like Nexstar.
- **Murphy USA** shares had strong performance in the fourth quarter as fuel supply chain disruptions from the major hurricanes helped boost fuel margins for many convenience store chains, which more than offset any in-store weakness from lower traffic. Murphy also continues to benefit from high RIN prices that have been protected by new federal government mandates.
- Albany International was a top contributor to performance during the quarter due to position size (largest holding) as well its solid third-quarter earnings report. Albany reported third-quarter earnings that were well above investor expectations, and the company raised guidance for both of its divisions for the full year. The company's machine clothing business generated its best top-line growth rate in more than five years, and management said they will update the long-term targets to the engineered composites business on the next quarterly conference call.
- Simpson Manufacturing was a strong contributor to performance during the period after the company announced a new "2020 plan" with its third-quarter earnings release. The plan included sales, working capital, ROIC and margin targets that were well above the market's expectations. This was the first long-term guidance Simpson has given in some time, and while the targets are aggressive, we believe that they are achievable. Despite the move in the stock, we do not believe the market fully appreciates the potential earnings power at Simpson if the company is able to achieve these goals.
- **Forest City** was a detractor in the fourth quarter, along with other real estate names. The REIT sector underperformed the market with investors favoring growth-oriented sectors. From a fundamental perspective, Forest City continued to execute well on its strategic plan to sell its retail real estate assets, and consummated the closing of the first of its sales to joint venture partners QIC and Madison International at pricing in line with expectations. The core portfolio of office and multifamily assets performed well in the quarter, with net operating income (NOI) growth accelerating to a healthy 3.5%. Stepping back, Forest City was a solid performer for the full year, with a total return of 18%, outperforming REITs as well as the broader benchmark.
- **MFA Financial** was down during the quarter due to concern over the company's ability to profitably replace portfolio runoff as well as recent price weakness in its CRT portfolio.
- **National Bank Holdings** was under pressure following a third-quarter earnings release that saw EPS and loan growth fall below consensus expectations. Additionally, late in the quarter, the company announced that it was taking a valuation allowance against its deferred tax asset as a result of anticipated tax reform. This impact will result in an approximate 4% markdown to current tangible book value.
- **Loral**, which holds a majority stake in Telesat, declined in the fourth quarter on little news.
- **Colony NorthStar** saw weakness following a third-quarter earnings release that fell below consensus expectations. Additional management commentary prompted downward revisions to forward estimates.

SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
PRI	Primerica, Inc.	3.11	24.78	0.69
NXST	Nexstar Media Group, Inc. Class A	2.54	26.10	0.64
MUSA	Murphy USA, Inc.	2.68	16.46	0.41
AIN	Albany International Corp. Class A	5.11	7.35	0.39
SSD	Simpson Manufacturing Co., Inc.	2.48	17.56	0.36
SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
FCE.A	Forest City Realty Trust Inc Class A	3.51	-4.98	-0.18
MFA	MFA Financial, Inc.	2.18	-7.31	-0.17
NBHC	National Bank Holdings Corporation Class A	1.77	-8.88	-0.17
LORL	Loral Space & Communications Inc.	1.47	-11.01	-0.17
CLNS	Colony NorthStar, Inc. Class A	2.25	-7.03	-0.16

PortfolioActivity

- Consolidated-Tomoka Land is undergoing a shift in strategy from a land holding company to a triple-net-lease operator. We believe that the company is sitting on 8,100 acres of undeveloped land that, when accounting for recent contract pricing and expected sales proceeds, implies its underlying NNN lease portfolio is trading at an 8.8% implied cap rate, well above the approximate 6.8% average for publicly traded peers. Furthermore, proceeds from an accelerated land monetization plan laid out by management could be redeployed into income-producing properties that could more than double the NOI earned at the company, even at today's low cap rates. As the company transitions to a pure-play operator, we believe it will convert into an REIT structure.
- DSW is an off-price retailer of footwear and accessory brands that sells through over 500 retail stores and online. While the challenges of brick-and-mortar retail as well as the omnipresent threat of Amazon (Zappos) are well-known, we believe DSW presents a compelling investment opportunity. Although DSW's business has been impacted by secular retail issues, this is reflected in its low valuation (approximate 4x EBITDA), and we believe the business has shown early signs of stabilization in key metrics (same-store sales, profitability per square foot and inventory control). Further, the company has reduced store growth targets, almost entirely invested in the build-out of its omni-channel capabilities, and is now producing high levels of free cash flow (approximate 8% free-cash-flow yield). With a net cash position and a \$500 million share repurchase authorization on a \$1.7 billion market cap company, DSW's balance sheet and capital allocation policies are strong. The company also pays a quarterly dividend, which is yielding close to 4%. We believe the near-term scenario for the company is attractive; if early 2018 reports beat current consensus estimates, it could lead to a re-rating of DSW shares.
- Landmark Infrastructure Partners LP (LMRK) is an MLP that acquires and manages real property interests on land or structures underlying infrastructure in wireless communications (towers), outdoor advertising (billboards) and renewable power generation (utility-scale solar farms). We are buying an infrastructure-based MLP at a current yield of 8.4% that has growing cash flows from its existing asset base, which are long-lived leases with escalators supporting infrastructure that is critical to LMRK's customers' businesses. Additionally, LMRK's sponsor has an existing portfolio of assets, which LMRK will be able to purchase to grow its asset base and distribution.
- REX American Resources (REX) has ownership stakes in six leading ethanol production facilities in the Midwest. Despite the underlying volatility of the price of ethanol as well as its largest input prices (corn and natural gas), REX has been able to generate positive free cash flow every year since 2011. It has consistently shown that it has some of the most efficient, lowest-cost plants in the U.S., and the recent weakness in ethanol pricing gave us an opportunity to purchase these assets well below replacement cost. We think the outlook for ethanol remains favorable and should be supported by continued strength in the export market, as countries like China and India look to expand their biofuel mandates. We expect REX's free cash flow to accelerate in 2018 as the company completes its final capacity expansions at its two consolidated facilities. Capex should fall by 60% in 2018, and ethanol production should increase over 10% from 2016 levels. REX has a strong history of returning cash to shareholders, with total shares outstanding reduced by 25% since 2011 and by 64% since 2001. We believe our downside is protected given REX's overcapitalized balance sheet (\$28/share in net cash or 33% of current market cap), falling capex profile, historical track record of capital returns and strong free cash flow yields even in our downside scenario.

SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
CTO	Consolidated-Tomoka Land Co.	Real Estate
DSW	DSW Inc. Class A	Consumer Discretionary
LMRK	Landmark Infrastructure Partners LP	Real Estate
REX	REX American Resources Corporation	Energy
SHARES RECEIVED FROM CORPORATE ACTONS		
FHN	First Horizon National Corporation	Financials
MAXR	Maxar Technologies Ltd.	Information Technology

- We acquired First Horizon National Corp after the company finalized its merger with Capital Bank Financial.
- **The Maxar Technologies** deal to purchase Digital Globe closed during the quarter.

Portfolio Activity

- **Cars.com** was spun out of Tegna, a current investment.
- The **Capital Bank**, State National **and Digital Globe** transactions closed on schedule. We received shares in Maxar Technologies Ltd. (MAXR) from the Digital Globe transaction.
- We sold Carriage Services due to valuation and concern about the company’s strategic goals.
- We sold out of Hawaiian Telcom after the company entered into a definitive agreement to be acquired by Cincinnati Bell (CBB) for \$30.75, with a targeted 60%/40% cash/stock split.

SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT PORTFOLIO ACTIVITY		
DELETIONS		SECTOR
CARS	Cars.com	Information Technology
CBF	Capital Bank Financial Corp. Class A	Financials
CSV	Carriage Services Inc.	Consumer Discretionary
DGI	DigitalGlobe, Inc.	Consumer Discretionary
HCOM	Hawaiian Telcom Holdco, Inc.	Telecommunication Services
MAXR	Maxar Technologies Ltd.	Information Technology
SNC	State National Cos., Inc.	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)
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	41	34.5	14.1	15.8	32	0.3	693	40,739
2012	23	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

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

- For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
- The 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 monthly returns for the composite were not available (NA).
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance is not indicative of future results.
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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. **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.