

Brown Advisory Small-Cap Fundamental Value Strategy

We believe that our strategy uses a differentiated investment approach that focuses on free cash flow, capital allocation and valuation to produce attractive risk-adjusted returns.

October 2018 Monthly Report

Performance Contributors

TOP FIVE CONTRIBUTORS*

| TICKER | NAME | SECTOR | AVG. WEIGHT (%) | MONTHLY RETURN (%) | CONTRIBUTION TO RETURN (%) |
|--------|---------------------------------|------------------------|-----------------|--------------------|----------------------------|
| DENN | Denny's Corporation | Consumer Discretionary | 1.44 | 17.87 | 0.29 |
| CORE | Core-Mark Holding Company, Inc. | Consumer Discretionary | 1.74 | 13.10 | 0.22 |
| ATNI | ATN International, Inc. | Communication Services | 0.83 | 14.36 | 0.13 |
| NGHC | National General Holdings Corp. | Financials | 2.00 | 3.80 | 0.11 |
| CPF | Central Pacific Financial Corp. | Financials | 0.94 | 2.31 | 0.03 |

BOTTOM FIVE CONTRIBUTORS*

| TICKER | NAME | SECTOR | AVG. WEIGHT (%) | MONTHLY RETURN (%) | CONTRIBUTION TO RETURN (%) |
|--------|------------------------------------|------------------------|-----------------|--------------------|----------------------------|
| SSD | Simpson Manufacturing Co., Inc. | Industrials | 3.14 | -20.98 | -0.72 |
| STAY | Extended Stay America, Inc. | Consumer Discretionary | 3.07 | -19.53 | -0.65 |
| AIN | Albany International Corp. Class A | Industrials | 4.45 | -11.97 | -0.57 |
| DSW | DSW Inc. Class A | Consumer Discretionary | 2.11 | -21.64 | -0.49 |
| SATS | EchoStar Corporation Class A | Information Technology | 3.49 | -12.55 | -0.46 |

Top 10 Equity Holdings (%)

Cash and equivalents: 4.8%

| | | | |
|------------------------------------|-----|--|-----|
| 1. Albany International Corp. Cl A | 4.1 | 6. Forest City Realty Trust, Inc. Cl A | 2.6 |
| 2. Echostar Corp. | 3.2 | 7. McGrath RentCorp | 2.5 |
| 3. Nexstar Media Group, Inc. | 2.9 | 8. Riviera Resources Inc. | 2.4 |
| 4. Simpson Manufacturing Co., Inc. | 2.7 | 9. MRC Global, Inc. | 2.4 |
| 5. Extended Stay America, Inc. | 2.7 | 10. Assurant, Inc. | 2.3 |



J. DAVIDSCHUSTER
Portfolio Manager



MICHAEL POGGI, CFA
Associate Portfolio Manager

INSIDE THE STRATEGY: FACTS & TYPICAL PORTFOLIO FIGURES

| |
|--------------------------------------|
| Inception: 12/31/2008 |
| Benchmark: Russell 2000® Value Index |
| Portfolio: 45–60 Holdings |
| Position Size: 0.3%–5.0% |

Portfolio Comments

The Brown Advisory Small-Cap Fundamental Value Composite fell 8.6% (net of fees) in October, slightly outperforming its Russell 2000® Value Index benchmark, which fell 9.0% during the month.

The portfolio's energy, materials and health care holdings provided the largest contribution to return for the month. Denny's Corporation, a consumer discretionary holding, had the most significant contribution to return for the month.

The portfolio's industrials and utilities holdings were the largest detractors to performance in October. Simpson Manufacturing Co., Inc. was the largest detractor to relative performance. This engineering firm and building materials producer that provides structural connectors, anchors and products for new construction and retrofitting traded down with the shares of other construction and materials companies.

In October, we initiated positions in one materials and one real estate company. We also eliminated positions in one industrial company, one real estate company, and one financials company. [B](#)

*Source: FactSet®. 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. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. The security returns listed represent the period of when the security was held during the month. Top five and bottom five contributors exclude cash and cash equivalents. Contribution to return is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return for the reporting period. The top 10 equity holdings include cash and equivalents. The portfolio information provided is based on a representative Small-Cap Fundamental Value account and is provided as supplemental information. This representative account may differ from specific client portfolios. The composite performance shown above reflects the Small-Cap Fundamental Value Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Small-Cap Fundamental Value disclosure statement at the end of this presentation for a GIPS compliant presentation

Brown Advisory 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 | 24.0 | 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.

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. Please see composite disclosure statements for additional information.

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. Russell® and other service marks and trademarks related to the Russell indexes are trademarks of the London Stock Exchange Group of companies. An investor cannot invest directly into an index. FactSet® is a registered trademark of FactSet Research Systems, Inc. GICS® is a registered trademark of MSCI and Standard & Poor's Financial Services LLC

- 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.
- 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.

Terms and Definitions for Representative Account Calculations

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. **Contribution To Return** is calculated by multiplying a security's beginning portfolio weight by its daily return and geometrically linking the security's daily contribution to return over the entire reporting period.