

First Quarter 2017



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COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 2000® GROWTH INDEX
3 Mos.	5.17	5.01	5.35
1 YR	21.27	20.50	23.03
3 YR	9.24	8.54	6.72
5 YR	13.69	12.99	12.10
10 YR	10.51	9.74	8.06

Provided as supplemental information.

Review & Outlook

The Brown Advisory Small-Cap Growth Strategy posted a nearly in-line first quarter when compared to its benchmark, the Russell 2000® Growth Index. Equity market dynamics normalized during the period following the post-election histrionics. Due to our philosophical bias toward secular vs. cyclical growth, the strategy welcomed this development. Overall, the portfolio experienced a modest tailwind from stock selection and its weighted average market capitalization, while its bias toward quality and relative sector allocation produced a headwind. Over the long term, we continue to expect stock selection to be the overwhelming driver of both absolute and relative returns.

The first quarter of 2017 might best be described as a period of “digestion” for small-cap equities. Coming off a historic flurry of activity and fund flows in Q4 2016, the Russell 2000® Index posted a solid, but unspectacular, return of +2.5%, enabling large caps to reclaim market leadership. Within small caps, the recent massive outperformance of value ended, with growth besting value by well over 500 basis points. The likely cause of these reversals is a market moving from a mostly speculative to a now real-world view of the Trump administration’s policy priorities in both magnitude and timing. As investors digest the reality of Washington D.C.-led action, it will be interesting to watch the market unfold over the balance of the year.

We are very much bottom-up, fundamental investors. We would posit that thinking and acting differently against a universe of ideas where one possesses a unique or non-consensus view best produces attractive risk-adjusted returns. However, we are ardent believers that to fully understand the micro, one must appreciate the macro. We visualize the world of smaller company investments as being composed of a periodic table of small-cap elements. Each of these building blocks has the potential to create either a more or less favorable environment for small-cap equities in the future. Although a comprehensive, quantitative list is outside the bounds of these pages, the following provides a brief, qualitative summary:

REP. ACCOUNT CHARACTERISTICS

	SMALL-CAP GROWTH REP. ACCT.	RUSSELL 2000® GROWTH INDEX
P/E Ratio (FY2 Est.)	22.9x	18.6x
Earnings Growth 3-5 YR Estimate	18.4%	15.2%
Weighted Avg. Market Cap.	\$4.9 B	\$2.4 B
Weighted Median Market Cap.	\$3.6 B	\$2.2 B
PEG Ratio	1.3x	1.2x
Portfolio Turnover (3 YR Avg.)	38.5%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Waste Connections Inc	4.9
Cash & Equivalents	4.7
Liberty TripAdvisor Holdings, Inc. Cl A	3.2
Cogent Communications Group, Inc.	3.2
Charles River Laboratories International, Inc.	3.0
Bright Horizons Family Solution, Inc.	2.9
BroadSoft, Inc.	2.8
Cavium, Inc.	2.8
Hexcel Corp.	2.5
HEICO Corp.	2.4
TOTAL	32.3

FAVORABLE ENVIRONMENT

- + Improving US economy
- + Recovering earnings growth
- + Less regulation
- + Lower (pending) corporate taxes
- + Improved confidence

UNFAVORABLE ENVIRONMENT

- Historically high valuations
- Lower systemic liquidity (i.e. Fed policy)
- Increasing leverage
- Improved sentiment
- Low volatility

Despite the present environment for small caps appearing fairly balanced, our team is spending most of its time thinking and preparing for greater volatility ahead. The combination of market calm and high valuations usually breeds short- to intermediate-term dislocations that can rapidly change the prevailing opportunity set. Successfully navigating these periods is a critical factor in enabling long-term outperformance.

As always, we appreciate your support and interest in the strategy and look forward to updating you on our progress following Q2. Until then, we will focus on putting the portfolio in a position to navigate whatever world lies ahead and continue to seek out the “fat pitches” that produce favorable risk-adjusted returns.

Sector Diversification

- Consumer discretionary is slightly overweight vs. the benchmark; we continue to be underweight in traditional consumer sub-sectors such as apparel, retail and restaurants
- Consumer staples and industrials demonstrated attractive absolute performance and increased the overall weight in each sector.
- As in prior quarters, we have no holdings in energy, materials, real estate or utilities. We do, however, possess indirect exposure to the energy sector.
- Our financials weighting is consistent with quarters past. While underweight the benchmark, we believe many of our technology holdings are more appropriately classified in financial services, putting us more in-line with the benchmark.
- Health care and telecommunications remained largely consistent.

SECTOR	SMALL-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	SMALL-CAP GROWTH REP. ACCOUNT (%)	
	Q1 '17	Q1 '17	Q1 '17	Q4 '16	Q1 '16
Consumer Discretionary	16.61	15.10	1.50	17.46	9.71
Consumer Staples	2.88	3.03	-0.15	2.39	2.47
Energy	--	1.24	-1.24	--	--
Financials	2.70	5.65	-2.95	2.96	2.18
Health Care	15.58	21.77	-6.19	15.07	17.66
Industrials	23.47	15.78	7.70	22.81	23.75
Information Technology	35.38	24.83	10.55	35.34	40.60
Materials	--	5.59	-5.59	--	--
Real Estate	--	5.41	-5.41	--	--
Telecommunication Services	3.33	0.78	2.56	3.92	3.58
Utilities	--	0.82	-0.82	--	--

Quarterly Attribution Detail by Sector

- During the quarter, we saw outperformance in the consumer staples, industrial, and telecommunication services sectors. Our lack of exposure to energy was a positive contributor.
- Consumer discretionary and health care weighed on relative returns.

SECTOR	SMALL-CAP GROWTH REP. ACCOUNT		RUSSELL 2000® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	16.92	-3.97	15.61	2.08	-0.04	-0.94	-0.98
Consumer Staples	2.67	15.12	3.02	-0.04	0.04	0.37	0.40
Energy	--	--	1.33	-14.54	0.29	--	0.29
Financials	2.86	-4.24	5.67	3.14	0.06	-0.21	-0.15
Health Care	15.35	13.41	21.59	13.18	-0.43	--	-0.42
Industrials	23.17	7.63	15.84	1.74	-0.25	1.29	1.05
Information Technology	35.55	5.33	24.55	5.86	0.07	-0.20	-0.13
Materials	--	--	5.39	9.88	-0.23	--	-0.23
Real Estate	--	--	5.40	2.62	0.16	--	0.16
Telecommunication Services	3.44	5.24	0.78	-1.85	-0.19	0.22	0.04
Utilities	--	--	0.81	1.79	0.03	--	0.03
Total	100	5.40	100	5.36	-0.48	0.53	0.04

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

Quarterly Contribution to Return

- **Waste Connections**, a long-term holding in the portfolio, continued to demonstrate solid momentum thanks to its financially attractive acquisition of Progressive Waste.
- **Charles River Laboratories** continues to see strong demand for its services driven by biotechnology demand. The company's shares appreciated on positive guidance for 2017.
- **IDEXX Laboratories** gained after the company released positive second-quarter results and favorable guidance on its financial outlook for the year and for its longer-term vision.
- **Blackbaud** traded up after the company beat consensus numbers for the fourth quarter due to positive usage volume, increased online giving level and cross-sell opportunities.
- **SiteOne Landscape Supply** continued to gain share as the company differentiates itself as the largest player in a unique market. SiteOne released positive fourth quarter results and guidance for the full 2017 year.
- **Global Eagle** shares fell after the board announced the firing of the company's CEO and CFO at the end of February. Management was let go due to their inability to integrate recent transactions and a delayed 10-K filing which has subjected the company to future audit. An industry veteran has stepped off the board to become the permanent CEO and has issued statements that there has been no evidence of fraudulent behavior. We believe the company is worth more than its current value and there is a minority investment on the table by a Chinese conglomerate. The delayed 10-K filing and management departure has dimmed investor confidence which will need to be rebuilt over time.
- **Synchronoss Technologies** saw its share price fall after the company reported its intention to move away from its traditional activation business into the enterprise business via the acquisition of Intralinks. Investor concerns revolve around pre- and post-merger disclosures on organic growth in the company's cloud business.
- **Core-Mark's** performance suffered from the announced loss of the Kroger Convenience contract in January (~680 stores) and disappointing earnings primarily due to higher expenses associated with ramping up newly won business. The contract loss came on the heels of another major contract loss announced last year. While Core-Mark has been – and we believe it will continue to be – a large share gainer, these high-profile losses and uncertainty about another major contract currently under negotiation has caused near-term sentiment to be very negative despite recent sizeable 7-11 and Wal-Mart account wins.
- **SPS Commerce** issued guidance that 2017 revenue growth will be slightly below consensus, sending the share price lower.
- **Liberty TripAdvisor's** fundamentals continue to be hampered by the introduction of its Instant Book product. We believe the company occupies a strategic place in the online travel ecosystem.

SMALL-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
WCN	Waste Connections Inc.	4.94	12.48	0.58
CRL	Charles River Laboratories International Inc.	3.01	18.06	0.50
IDXX	IDEXX Laboratories Inc.	1.85	31.84	0.50
BLKB	Blackbaud Inc.	2.15	19.99	0.40
SITE	SiteOne Landscape Supply Inc.	1.15	39.39	0.40
SMALL-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
ENT	Global Eagle Entertainment Inc.	0.97	-50.62	-0.61
SNCR	Synchronoss Technologies Inc.	1.07	-36.29	-0.47
CORE	Core-Mark Holding Company Inc.	1.33	-27.38	-0.43
SPSC	SPS Commerce Inc.	1.41	-16.31	-0.27
LTRPA	Liberty TripAdvisor Holdings Inc Class A	3.33	-6.31	-0.14

Portfolio Activity

- **Acxiom Corporation** engages in marketing database intelligence development. It operates through the following segments: Marketing Services, Audience Solutions, and Connectivity.
- **Jounce Therapeutics** is a clinical stage immunotherapy company specializing in developing therapies that enable the immune system to attack tumors.
- We eliminated **Diplomat** due to a lack of start-up to intermediate-term fundamental visibility.
- **Incyte** reached market cap and price targets.
- Given the appreciation after its merger with Covance, we sold **Laboratory Corp of America**.
- Uncertainty around the company's long-term pricing model led us to sell **Teladoc**.

SMALL-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
ACXM	Acxiom Corporation	Information Technology
JNCE	Jounce Therapeutics, Inc.	Health Care
DELETIONS		SECTOR
DPLO	Diplomat Pharmacy, Inc.	Health Care
INCY	Incyte Corporation	Health Care
LH	Laboratory Corporation of America Holdings	Health Care
TDOC	Teladoc Inc	Health Care

Small-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	11.4	10.7	11.3	14	16.7	30	0.3	1,797	30,417
2015	8.9	8.2	-1.4	13.1	15	32	0.4	1,311	43,746
2014	1.4	0.8	5.6	11.8	13.8	32	0.3	1,597	44,772
2013	42.6	41.8	43.3	15.4	17.3	44	0.7	1,830	40,739
2012	16	15.4	14.6	18.3	20.7	32	0.6	1,178	26,794
2011	-1.7	-2.4	-2.9	20.6	24.3	29	0.5	1,023	19,962
2010	30.8	29.8	29.1	27.1	27.7	25	0.1	993	16,859
2009	43.1	41.9	34.5	25.2	24.9	16	1	481	11,058
2008	-38.9	-39.4	-38.5	23.3	21.3	17	0.2	323	8,547
2007	17.2	16.1	7	14	14.2	16	0.5	411	7,385

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, 2015. 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 Growth Equity Composite includes all discretionary portfolios invested in U.S. equities with strong earnings growth characteristics and small market capitalizations. This composite has been examined for the periods from January 1, 2006 through December 31, 2009. The examination reports are available upon request. The minimum account market value required for composite inclusion is \$1.5 million.
- This composite was created in 1997.
- The benchmark is the Russell 2000® Growth Index. The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 2000® Growth 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. Prior to 2003 the dispersion of annual returns is measured by the range between the high and low portfolio returns.
- 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: 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.
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request..
- Past performance does not indicate future results.
- This piece is provided for informational purposes only and should not be construed as a research report, a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned, including any mutual fund managed by Brown Advisory.

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Composite performance is based on the Brown Advisory Small-Cap Growth Composite and was obtained through FactSet®. All information and returns shown are as of 03/31/2017 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 Small-Cap Growth account and is provided as supplemental information. Account characteristics exclude cash and cash equivalents; top 10 holdings list includes cash and cash equivalents. FactSet® is a registered trademark of FactSet Research Systems, Inc.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. The portfolio information provided is based on a representative Small-Cap Growth account and is provided as supplemental information. 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. 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.

Please see composite disclosure statements above for additional information.

Terms and Definitions for Representative Account Calculations

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. **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 various outside brokerage firms, calculated according to each broker's methodology. **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. **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. **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. 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. **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. Totals may not equal due to rounding.