

Second Quarter 2017



CHRISTOPHER A. BERRIER

Portfolio Manager

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 2000® GROWTH INDEX
3 Mos.	4.58	4.41	4.39
1 YR	18.27	17.50	24.40
3 YR	11.52	10.81	7.64
5 YR	15.70	14.99	13.98
10 YR	10.06	9.30	7.82

Provided as supplemental information.

REP. ACCOUNT CHARACTERISTICS

	SMALL-CAP GROWTH REP. ACCT.	RUSSELL 2000® GROWTH INDEX
P/E Ratio (FY2 Est.)	24.5x	19.4x
Earnings Growth 3-5 YR Estimate	18.7%	14.3%
Weighted Avg. Market Cap.	\$5.0 B	\$2.2 B
Weighted Median Market Cap.	\$4.1 B	\$2.1 B
PEG Ratio	1.3x	1.4x
Portfolio Turnover (3 YR Avg.)	36.8%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Waste Connections, Inc.	4.8
Cash & Equivalents	4.3
Charles River Laboratories International, Inc.	3.2
Bright Horizons Family Solutions, Inc.	3.0
BroadSoft, Inc.	2.9
Cogent Communications Holdings Inc	2.8
Catalent Inc	2.6
MACOM Technology Solutions Holdings, Inc.	2.6
Liberty TripAdvisor Holdings Inc Class A	2.5
Broadridge Financial Solutions, Inc.	2.5
TOTAL	31.2

Review & Outlook

The U.S. equity market is being driven by a number of forces and factors which propelled stocks higher once again. During the second quarter of 2017 our strategy kept pace with its primary benchmark, the Russell 2000® Growth Index, for the period, and it appears our risk-adjusted return so far in 2017 is reasonably solid as we keep one eye on absolute; and one eye on relative returns.

So, what are the factors moving the market? Clearly, the economy is performing well and earnings are chugging along just fine. But, while this is the headline, below the fold is a more interesting story. In a quasi self-reinforcing manner, extraordinarily easy monetary policy, the ascendancy of index and exchange traded funds, the collapse in publicly listed companies, and the existential risk faced by active managers have moved equity valuations to ever increasing levels.

For almost a decade, The Federal Reserve and other global central banks have dramatically increased the supply of money – liquidity – in order to save and then support the global economy. An intended byproduct of such policies is the hoped-for creation of a wealth effect – higher asset prices driving greater economic activity (i.e. consumption). At the same time and for a variety of reasons, despite much higher nominal levels of GDP, the number of listed companies in the U.S. has been roughly cut in half. Simply put, greater investment demand + lower public investment supply = higher prices. The Fed has engineered its wealth effect.

This increased investment demand is importantly accessing supply through emerging channels. Throughout history, the vast majority of investment decisions were made by human beings attempting to balance fundamentals, expectations and valuations to build a responsible portfolio for themselves or clients. While this certainly still occurs, machines have become the incremental investor, caring mostly about index construction and factors (i.e. market capitalization, momentum, volatility, etc.), and less about valuation and risk. Although many investors laud the attributes of passive investing, even a good thing can be taken too far.

As equity prices continue to drift higher and higher, and volatility lower and lower, the dividends paid to the remaining “active” human investors for valuation and risk management plummet. The outcome has become what many are viewing as an existential threat to human-based analysis and decision making.

What is the response of the remaining set of active managers? Rightly believing that their careers are at risk, many of those still occupying their desk chairs have concluded that owning anything that is “not working” is unacceptable. Thus, both passive and active managers over time continue to buy a similar list of securities, driving their prices ever higher. This is dangerous territory. Instead of asking if they are getting good value, managers are asking if their investment is going to continue “working” this quarter. When managers fear the loss of their seat in the short term, the motivation to think about the long term fades quickly, so in short, many of them are simply selling what is going down and buying what is going up.

We are certainly not immune from these natural behavioral triggers. However, we rely on our philosophical underpinnings to guide us through short-term temptations, and we focus our time and attention on generating solid risk-adjusted returns through the long-term power of compounding. We take comfort in our results over the last decade; our process, rooted firmly in fundamental research, has worked, and we trust it will continue to work over time. We are also comforted by the mindset of our clients; they broadly share our long-term focus and that gives us a very strong foundation for making the right decisions on their behalf. We believe that our philosophy can generate excellent results over time, but it takes a sufficient scale and runway to practice that philosophy, and our clients provide us with both.

For the first half of the year, the strategy has continued to vacillate from slight outperformance to slight underperformance. We see a number of reasons why we may begin to see more tailwinds for our approach vs. the headwinds of recent years, but we know that a laser focus on execution—building our investment pipeline, exercising careful due diligence and engaging in robust debate about our ideas—will be the key to success moving forward.

In sum we believe that , valuations are high, volatility will come, and we hope to leverage the hard work of our team to use it to our advantage.

Sector Diversification

- Our weighting in consumer discretionary and consumer staples aligns with that of our benchmark, but the composition of our holdings is quite different than that of the Index.
- We currently have no direct exposure to energy, but we have indirect exposure across several holdings.
- While our weighting in financials is lower than the benchmark's, we have greater indirect exposure to financials due to our data, analytics and processing holdings.
- Health care is our largest underweight, due in part to the recent reconstitution of the benchmark. On paper, bio-pharma represents the entirety of the gap, but holdings like **Medidata** and **Charles River** actually diminish our underweight when adjusting for beta.
- Our overweight in industrials stems mostly from **Waste Connections**, our largest holding, although we believe our holdings are less cyclical than the benchmark's. With no holdings in energy or materials, we are roughly in line with the benchmark in terms of the more economically sensitive sectors.
- Telecommunication services is represented by a single holding, **Cogent Communications**. We continue to look for potential companies in real estate and utilities, but those sectors are generally not a good fit with our philosophy.

SECTOR	SMALL-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	SMALL-CAP GROWTH REP. ACCOUNT (%)	
	Q2 '17	Q2 '17		Q1 '17	Q2 '16
Consumer Discretionary	15.45	14.46	0.98	15.50	10.83
Consumer Staples	3.44	2.60	0.84	2.88	2.68
Energy	--	1.14	-1.14	--	--
Financials	2.39	5.96	-3.57	2.70	2.10
Health Care	17.04	24.28	-7.24	16.68	17.03
Industrials	23.30	17.36	5.93	23.47	21.20
Information Technology	35.38	24.20	11.18	35.38	42.72
Materials	--	4.72	-4.72	--	--
Real Estate	--	3.50	-3.50	--	--
Telecommunication Services	2.96	1.03	1.94	3.33	3.39
Utilities	--	0.74	-0.74	--	--

Quarterly Attribution Detail by Sector

- Positive contributors for the period included industrials, information technology and energy. Stock selection was the dominant factor.
- Negative contributors included telecommunications and health care. Our attribution in telecom was driven by a single holding, **Cogent Communications**, which pulled back modestly off its highs during the period; meanwhile, several telecom names in the benchmark, including Straight Path, moved up by large margins.

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	15.74	0.71	14.97	2.18	-0.01	-0.22	-0.23
Consumer Staples	2.75	-4.17	2.96	-1.35	0.02	-0.08	-0.07
Energy	--	--	1.11	-20.64	0.30	--	0.30
Financials	2.50	-7.07	5.51	-1.08	0.15	-0.16	-0.01
Health Care	16.91	8.39	21.93	9.83	-0.24	-0.23	-0.47
Industrials	23.37	6.29	15.69	1.10	-0.27	1.18	0.90
Information Technology	35.55	7.48	25.33	5.36	0.08	0.71	0.80
Materials	--	--	5.32	1.36	0.16	--	0.16
Real Estate	--	--	5.40	6.89	-0.15	--	-0.15
Telecommunication Services	3.15	-5.83	0.95	26.09	0.54	-1.05	-0.51
Utilities	--	--	0.83	5.89	-0.01	--	-0.01
Total	100.00	5.10	100.00	4.39	0.58	0.13	0.71

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

- **Catalent** gained after the company released positive third-quarter results and reported that each of its segments were performing well.
- Medidata moved higher on strong first-quarter earnings and announcements highlighting new customer wins.
- **Waste Connections**, a long-term holding in the portfolio, showed solid momentum. Positive highlights include its financially attractive acquisition of Progressive Waste and its ability to benefit from a solid economic backdrop.
- **MACOM Technology** highlighted a data-center opportunity during a non-deal road show; we believe the opportunity over the next couple of years is much larger in magnitude than what was broadly expected.
- **Charles River Laboratories** largely reiterated its full-year financial guidance. Its shares were aided by more positive sentiment across the biotech landscape.
- **Liberty TripAdvisor** is still integrating its relatively new Instant Booking functionality on its website. The functionality will create greater long-term optionality, but the integration is producing near-term disruption and uncertainty.
- **Cavium** pulled back with the broader semiconductor space, and over concerns about AMD's potential entrance into the ARM data-center market. We will monitor the latter to see if the concern is warranted.
- **Alder Biopharmaceuticals** released new data on its migraine drug. Although the report was positive, cross trial comparisons vs. its future competition were deemed neutral at best. This begs the question of how much market share investors can reasonably expect upon commercialization.
- **Cogent Communications** saw a modest deceleration in its Net Centric business segment. Overall Internet traffic growth was below expectations, but we believe this to be a temporary phenomenon.
- **Coherus BioSciences** received a CRL (complete response letter) delaying its CHS-1701 and CHS-1420 approvals. However, the company appears confident that this is largely an issue of timing.

SMALL-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
CTLT	Catalent Inc	2.62	23.94	0.56
MDSO	Medidata Solutions Inc.	1.71	35.55	0.52
WCN	Waste Connections Inc.	5.17	9.75	0.50
MTSI	MACOM Technology Solutions Holdings Inc.	2.65	15.47	0.40
CRL	Charles River Laboratories International Inc.	3.12	12.45	0.37
SMALL-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
LTRPA	Liberty TripAdvisor Holdings Inc Class A	3.06	-17.73	-0.60
CAVM	Cavium Inc.	2.76	-13.30	-0.37
ALDR	Alder Biopharmaceuticals Inc.	0.44	-44.95	-0.22
CCOI	Cogent Communications Holdings Inc	3.15	-5.83	-0.20
CHRS	Coherus BioSciences Inc.	0.44	-32.15	-0.18

Portfolio Activity

- **Appian Corp** is a provider of business process management (BPM) solutions. Its low-code software enables rapid and more cost-effective custom application development, and may be on the cusp of broader adoption as more applications move to the "cloud".
- **BWX Technologies** is a leading supplier of nuclear components and fuel to the U.S. government. It also provides technical, management and site services to support governments in the operation of complex facilities and environmental remediation activities, and it supplies precision manufactured components and services for the commercial nuclear power industry. The company is largely a sole source supplier to the U.S. for critical defense force structure needs. We believe that BWX has a large moat that protects its long-term profit generation potential.
- **Carvana** is an e-commerce platform for buying used cars. The e-commerce model is potentially very disruptive to the current auto market, given its potential to deliver a superior experience in terms of convenience, seamless transactions and customer service.
- **Casey's General Stores** operates convenience stores in the Midwestern U.S. Its efforts around greater fresh food options, web ordering and delivery have the potential to drive greater unit-level cash flows. It currently trades at an attractive valuation in our view and carries more muted expectations than in the recent past, and we have taken a small initial position in the company.
- **Habit Restaurants, Inc.** owns and operates The Habit Burger Grill, which prepares made-to-order burgers and sandwiches. We believe that it possesses ample room for new unit expansion, broad demographic appeal, a compelling value proposition and strong unit economics. We think its valuation can rise from its current level as this experienced management team continues to execute its growth strategy.
- **Pegasystems** was sold due to high valuation.
- **Synchronoss** reported its intention to move away from its traditional activation business, and into the enterprise segment via the acquisition of Intralinks. After analyzing the transaction and management's commentary about the deal, we sold our position.

SMALL-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
APPN	Appian Corporation Class A	Information Technology
BWXT	BWX Technologies, Inc.	Industrials
CVNA	Carvana Co. Class A	Consumer Discretionary
CASY	Casey's General Stores, Inc.	Consumer Staples
HABT	Habit Restaurants, Inc. Class A	Consumer Discretionary
DELETIONS		SECTOR
PEGA	Pegasystems Inc.	Information Technology
SNCR	Synchronoss Technologies, Inc.	Information Technology

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

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.

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.

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 06/30/2017 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet. This information is based on a representative 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.