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Portfolio Manager



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COMPOSITE PERFORMANCE(%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 2000® GROWTH INDEX
3 MOS.	6.43	6.24	7.23
YTD	10.23	9.87	9.70
1 YR.	19.11	18.30	21.86
3 YR.	13.13	12.40	10.60
5 YR.	14.63	13.91	13.65
10 YR.	12.37	11.62	11.24

The composite performance shown above reflects the Brown Advisory Small-Cap Growth 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 GROWTH REP. ACCT.	RUSSELL 2000® GROWTH INDEX
P/E Ratio (FY2 Est.)	24.0x	18.5x
Earnings Growth (3-5 Yr. Est.)	16.0%	17.1%
Wtd. Avg. Market Cap.	\$5.6 B	\$2.4 B
Weighted Median Market Cap.	\$4.9 B	\$2.3 B
Portfolio Turnover (3 YR Avg.)	34.3%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Waste Connections Inc	4.8
Cash & Equivalents	3.5
Cogent Communications Group, Inc.	3.4
Bright Horizons Family Solution, Inc.	3.4
Cotiviti Holdings, Inc.	2.8
Broadridge Financial Solutions, Inc.	2.8
Genpact Ltd.	2.7
Cavium, Inc.	2.7
Catalent, Inc.	2.7
Mimecast, Ltd.	2.5
TOTAL	31.2

Review & Outlook

The Brown Advisory Small-Cap Growth Strategy posted a solid absolute gain in the second quarter, but fell short of its primary benchmark, the Russell 2000® Growth Index. This is not surprising given the leadership of lower-quality, higher-valuation and lower market-cap/liquidity issues in the market. Our strategy tends to be underweight these names based on our long held philosophy and process discipline.

Our focus over a dozen years has been harnessing the power of compounding by seeking out “3G” (durable growth, sound governance and scalable go-to-market) business models that have a higher potential to make the long and arduous journey from small- to mid- to large-cap status over time. As we go through this discovery process, we strive to exploit two inefficiencies: 1) informational or analytical advantage via rigorous fundamental due diligence and/or 2) time arbitrage against the typical momentum/volatility properties of the small-cap space. We seek to execute against attractive risk/reward opportunities that drive upside capture in the long term and solid downside capture in the short term.

As a team, the greatest opportunity we have is the robust environment for business creation in the United States. The greatest obstacle we have is the present cyclical phenomenon of extended valuations, low volatility and unbridled upside momentum. The second inefficiency has been more difficult to exploit recently.

That said, we have found a number of new ideas year to date, and our “on-deck” list across sectors continues to grow. We believe that this puts us in a solid position to take advantage of opportunities as they arise. At the midpoint of 2018, our returns are fluctuating around a strongly performing benchmark, downside capture remains attractive and the portfolio possesses a handful of above average-sized positions that we believe have room to move higher on fundamental progress over the next couple of quarters.

The present economic and market cycle is distinct from many experienced in the past. Coming out of a financial recession or crisis, it is typical to see dramatic improvements in growth immediately as monetary and fiscal stimuli drive gains off a depressed base. Over time, growth then decelerates to a steady state based on population growth and productivity gains, with variances depending upon the increase in leverage in the system and the duration and magnitude of the stimulus deployed. Contrast this to the current expansionary cycle—which is on par with the longest in history—where we are actually experiencing a late-cycle acceleration in growth. Unprecedented late-cycle stimulus in the form of a business tax cut coupled with monetary policy that is taking a particularly slow and steady approach to normalization provided the catalyst for this occurrence.

While the current acceleration is positive, we have some concerns around the difficult earnings comparisons companies will likely face in 2019, particularly as undifferentiated businesses will likely see the earnings benefit of the tax cut competed away over time. Furthermore, while relative valuations are reasonable (e.g., loss-makers), absolute valuations are high. This places a greater burden on the continuation of strong fundamental momentum. In short, the investment and business environments are attractive today, but we are constantly asking ourselves on a bottom-up basis: What future good news is or is not priced into a stock? How is this business differentiated? What is its competitive moat? How long is the runway for growth? How sustainable is the margin structure or progression? What is the free cash flow generation potential? These questions are a consistent part of our philosophy and process on the belief that both quality and valuation factors play an important role in building an “all-weather” portfolio that an investor can own through a full market cycle.

Fundamentally, the portfolio structure has not changed dramatically over the last several years, although this does not mean there was a lack of activity. It simply means that our general portfolio characteristics, such as high active share, diversification, business quality, valuation, growth rate, etc., have not deviated much from recent history. Year to date, we have added nearly a dozen new ideas, and we are generally pleased with this level of productivity. Many of our additions were driven by the process of recycling capital out of more mature, long-tenured holdings into smaller-cap names where we believe there is a greater opportunity for a higher rate of compounding. For example, we eliminated Global Payments, a nearly decade long \$10 billion-plus market cap payment processing business, in the first quarter of 2018 and acquired **Evo Payments**, a \$1 billion-plus market cap payment processing business, in the most recent quarter. We also sold **Liberty Formula One**, primarily due to its leverage profile, and added to two other consumer-facing business, **Etsy Inc.** and **National Vision Holdings**. These trades partially demonstrate how we are long-term oriented but recognize the importance of portfolio life cycle dynamics.

Continued on next page

In sum, the unifying, underlying theme of the portfolio is a focus on companies possessing *durable* growth, *sound* governance and *scalable* go-to-market strategies. Our philosophy and process have led to a set of historical portfolio traits. When juxtaposed with current market dynamics, portfolio returns on a year-to-date basis are largely in line with our expectations.

Investing is a marathon through a myriad of different environments, with the goal of producing superior risk-adjusted returns at the end. As in Aesop’s famous children’s fable *The Tortoise and the Hare*, it is not how fast you can sprint for a short period of time but whether you can consistently make progress toward your end goal. With a solid pipeline and a long-term perspective, we will continue striving to prudently and opportunistically deploy capital to ensure the portfolio remains steadfast in its journey forward. [B](#)

For further market and economic analysis, please reach out to your Brown Advisory relationship manager for an extended version of this commentary.

Sector Diversification

- The strategy was underweight consumer discretionary. New holdings were added during the period and may lessen the underweight as they are scaled up over time.
- The strategy was overweight producer durables, but this is offset by an underweight in energy and in materials & processing. Two energy names are being actively considered.
- The strategy was underweight health care due primarily to a sizable underweight to the biopharma subsector. However, there are also a couple of holdings that Russell classifies in other areas that likely should be allocated to health care, thus modestly lowering the underweight. Valuations across the sector have risen dramatically over the last few quarters.
- Financial services remains overweight and comprises an eclectic group of data and analytics, payment processing, and financial services businesses.
- Technology remains a modest overweight, which is consistent with the neutral to overweight position possessed by the strategy over the past 12 plus years. Valuations, particularly in our favored subsector, software, have become quite lofty of late, which has required greater selectivity in capital deployment.
- The strategy is overweight utilities, but only holds a single position.

RUSSELL GLOBAL SECTORS	SMALL-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	SMALL-CAP GROWTH REP. ACCOUNT (%)	
	Q2 '18	Q2 '18	Q2 '18	Q1 '18	Q2 '17
Consumer Discretionary	14.53	17.87	-3.34	13.72	15.00
Consumer Staples	2.85	2.52	0.33	3.90	4.39
Energy	--	2.37	-2.37	--	--
Financial Services	13.53	10.60	2.93	13.96	9.42
Health Care	17.08	25.95	-8.87	18.09	17.04
Materials & Processing	2.21	8.21	-6.00	2.29	2.40
Producer Durables	21.45	15.44	6.01	21.25	18.19
Technology	18.47	15.30	3.18	18.64	23.35
Utilities	3.49	1.71	1.78	2.96	2.96
Unassigned	6.38	0.03	6.36	5.20	7.24

Quarterly Attribution Detail by Sector

- Given the leadership of non-earners, lower quality, lower liquidity and the smallest of small-cap stocks, the results are broadly in line with general expectations, although we always strive to overcome style headwinds via stock selection.
- Strategy returns were strong in financial services, technology, health care and utilities but lagged in the consumer segments.

RUSSELL GLOBAL SECTORS	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	13.79	5.42	15.68	10.56	-0.03	-0.70	-0.72
Consumer Staples	3.08	1.50	2.28	19.76	0.07	-0.56	-0.49
Energy	--	--	1.28	14.35	-0.11	0.00	-0.11
Financial Services	13.91	6.71	10.13	5.06	-0.07	0.24	0.17
Health Care	17.83	13.66	24.93	9.11	-0.10	0.62	0.52
Materials & Processing	2.35	2.97	7.82	1.44	0.31	0.05	0.37
Producer Durables	21.46	-0.50	15.12	2.80	-0.27	-0.74	-1.02
Technology	18.54	8.62	20.02	6.36	-0.01	0.39	0.37
Utilities	3.34	24.30	1.82	7.51	0.01	0.51	0.52
Unassigned	5.70	6.81	0.94	12.76	0.26	-0.41	-0.15
Total	100.00	6.68	100.00	7.23	0.06	-0.61	-0.55

Quarterly Contribution to Return

- **Cogent Communications** shares rose after posting better-than-anticipated cash flow growth in the most recent quarter coupled with commentary that it is seeing accelerated traffic volumes, an important driver of future growth.
- **Cotiviti** shares rose during the quarter on news that Veritas/Verscend Technologies will be acquiring the company for \$44.75 a share.
- **Mimecast's** stock rose on strong reported quarterly results and guidance, yet the company continues to trade at an EV/Sales discount compared to peers.
- **Aspen Technology** reported strong revenue and free cash flow results for the quarter. Management also emphasized confidence in the company's market opportunity for its application performance management product suite to drive growth.
- **Ultragenyx Pharmaceutical's** share price was catalyzed by the release of positive pediatric Crysvita phase III data.
- **Knight-Swift Transportation** shares declined due to concerns over escalating driver pay, offsetting the strong pricing gains currently being experienced. Discussions of a "trade war" also provoked worries that it might dampen economic activity in the future—truckload is an economically sensitive sector.
- **Genpact** reported solid top-line growth, and its forward commentary was positive, but investors were troubled by modest gross margin pressure due to accelerated hiring and seasonally disappointing cash flow metrics, which management characterized as an issue of timing versus a structural change.
- **GCI Liberty** pulled back on general concerns over how the traditional cable TV-broadband business model will unfold over the next three to five years.
- **Mercury Systems** reported disappointing quarterly cash flow dynamics due to a number of issues that appear largely transient in nature, but the company continues to experience solid bookings and a favorable end market demand environment.
- **ConnectOne Bancorp's** stock fell on worries of slower loan growth and the potential for continued net interest margin pressure.

SMALL-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
CCOI	Cogent Communications Holdings Inc	3.34	24.30	0.74
COTV	Cotiviti Holdings, Inc.	2.41	28.14	0.61
MIME	Mimecast Limited	2.68	16.31	0.44
AZPN	Aspen Technology, Inc.	2.23	17.56	0.38
RARE	Ultragenyx Pharmaceutical, Inc.	0.87	50.76	0.37
SMALL-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
KNX	Knight-Swift Transportation Holdings Inc. Class A	1.76	-16.83	-0.35
G	Genpact Limited	2.75	-9.34	-0.29
GLIBA	GCI Liberty, Inc. Class A	1.52	-14.72	-0.29
MRCY	Mercury Systems, Inc.	0.75	-21.23	-0.22
CNOB	ConnectOne Bancorp, Inc.	1.17	-13.31	-0.17

Portfolio Activity

- **Etsy Inc.** operates Etsy.com, a commerce platform to make, sell and buy goods online primarily in the United States, United Kingdom, Canada, Australia, France and Germany. It provides various seller services and tools that are designed to help entrepreneurs for starting, managing and scaling their businesses.
- **EVO Payments International LLC** provides electronic payments processing services. The company offers noncash payment acceptance, terminals and other payment acceptance channels, acquiring and payment transaction processing, and fraud and loss prevention services.
- **Loxo Oncology Inc.** researches and develops cancer drugs. The company focuses on building small molecule cancer drugs for genetically defined patient subsets.
- **National Vision Inc. (NVI)** retails optical products. The company offers frames, contact lenses and safety eyewear, as well as eye examining services. NVI serves customers in the United States, China and Mexico.
- **Zuora Inc.** develops cloud-based software. The company offers an online subscription billing and management platform that provides pricing subscription orders, rating, accounting and payment services.
- **Acxiom** was sold, as our thesis around the company's ability to accelerate LiveRamp growth appeared in jeopardy.
- **Appian** once again spiked to a price where we were aggressive sellers at the beginning of the year, so we made the decision to exit and move the company back onto our pipeline list should lower prices prevail.
- **BeiGene** demonstrated both clinical and commercial progress, catapulting its market capitalization to a point where it had reached the bounds of our original investment thesis.
- **Global Eagle** was a tag position that was eliminated.
- **Jounce Therapeutics** was sold prior to a significant data release, as certain preliminary data made us re-evaluate the underlying risk profile of the position.
- **Liberty Formula One** was sold due to aggregate concerns around leverage levels in the smaller-cap space and our desire to limit the overall leverage profile of the portfolio, which is already relatively low.
- **Liberty TripAdvisor** was a disappointment relative to our initial expectations, as one key component of a three-pronged thesis failed to play out on a timely basis.

SMALL-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
ETSY	Etsy, Inc.	Information Technology
EVOP	EVO Payments, Inc. Class A	Consumer Discretionary
LOXO	Loxo Oncology Inc	Health Care
EYE	National Vision Holdings, Inc.	Consumer Discretionary
ZUO	Zuora, Inc. Class A	Information Technology
DELETIONS		SECTOR
ACXM	Acxiom Corporation	Information Technology
APPN	Appian Corporation Class A	Information Technology
BGNE	BeiGene Ltd. Sponsored ADR	Health Care
ENT	Global Eagle Entertainment, Inc.	Consumer Discretionary
JNCE	Jounce Therapeutics, Inc.	Health Care
FWONA	Liberty Media Corporation Series A Liberty Formula One	Consumer Discretionary
LTRPA	Liberty TripAdvisor Holdings Inc Class A	Consumer Discretionary

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

GLCS Sector Diversification

GICS SECTOR	SMALL-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	SMALL-CAP GROWTH REP. ACCOUNT (%)	
	Q2 '18	Q2 '18	Q2 '18	Q1 '18	Q2 '17
Consumer Discretionary	13.85	15.79	-1.95	12.79	16.40
Consumer Staples	3.47	2.87	0.60	3.90	3.44
Energy	--	2.43	-2.43	--	--
Financials	6.40	7.65	-1.25	6.74	2.39
Health Care	17.08	26.46	-9.38	18.09	17.04
Industrials	23.43	17.88	5.56	23.92	22.34
Information Technology	32.24	18.91	13.33	31.55	35.38
Materials	--	4.26	-4.26	--	--
Real Estate	--	2.52	-2.52	--	--
Telecommunication Services	3.49	0.79	2.70	2.96	2.96
Utilities	--	0.41	-0.41	--	--

GLCS Quarterly Attribution Detail by Sector

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	12.80	2.60	13.92	10.14	--	-0.96	-0.96
Consumer Staples	3.49	2.97	2.53	16.72	0.07	-0.45	-0.39
Energy	--	--	1.38	13.35	-0.10	--	-0.10
Financials	6.79	1.64	6.20	3.57	--	-0.12	-0.12
Health Care	17.84	13.66	25.54	9.95	-0.17	0.47	0.30
Industrials	23.64	1.23	17.05	1.71	-0.35	-0.13	-0.48
Information Technology	32.06	8.71	24.54	7.29	0.02	0.37	0.39
Materials	--	--	4.39	0.95	0.28	--	0.28
Real Estate	--	--	3.12	8.62	--	--	--
Telecommunication Services	3.34	24.30	0.73	9.78	0.06	0.44	0.50
Utilities	--	--	0.61	5.81	0.02	--	0.02
[Unassigned]	0.04	--	0.01	42.67	0.02	-0.01	0.01
Total	100.00	6.68	100.00	7.23	-0.16	-0.39	-0.55

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Small-Cap Growth Equity Composite

Year	Composite TotalGross Returns (%)	Composite TotalNet Returns (%)	BenchmarkReturns (%)	Composite 3-Yr AnnualizedStandard Deviation (%)	Benchmark 3-Yr AnnualizedStandard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (\$USD Millions)	GIPS Firm Assets (\$USD Millions)
2017	18.8	18.1	22.2	12.2	14.6	33	0.2	2,301	33,155
2016	11.4	10.7	11.3	14.0	16.7	30	0.3	1,797	30,417
2015	8.9	8.2	-1.4	13.1	15.0	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

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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 Growth Equity Composite includes all discretionary portfolios invested in U.S. equities with strong earnings growth characteristics and small market capitalizations. 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.
- 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.
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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 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 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.

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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. **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.