

U.S. Small-Cap Growth Equity

QUARTERLY STRATEGY UPDATE

Fourth Quarter 2016



CHRISTOPHER A. BERRIER

Portfolio Manager, Small-Cap Growth

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 2000® GROWTH INDEX
3 Mos.	-1.14	-1.30	3.57
1 YR	11.37	10.67	11.32
3 YR	7.14	6.46	5.05
5 YR	15.27	14.56	13.74
10 YR	10.36	9.58	7.76

Provided as supplemental information.

REP. ACCOUNT CHARACTERISTICS

	SMALL-CAP GROWTH REP. ACCT.	RUSSELL 2000® GROWTH INDEX
P/E Ratio (FY2 Est.)	23.9x	19.6x
Earnings Growth 3-5 YR Estimate	17.5%	13.8%
Weighted Avg. Market Cap.	\$4.3 B	\$2.2 B
Weighted Median Market Cap.	\$3.2 B	\$2.1 B
PEG Ratio	1.4x	1.4x
Portfolio Turnover (3 YR Avg.)	38.2%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Cash & Equivalents	5.1
Waste Connections Inc.	4.3
Cogent Communications Group, Inc.	3.3
BroadSoft Inc.	3.2
Bright Horizons Family Solution, Inc.	2.6
Liberty TripAdvisor Holdings Inc. Cl A	2.5
IDEXX Laboratories Inc.	2.5
Broadridge Financial Solutions, Inc.	2.4
Interactive Intelligence Group, Inc.	2.4
Charles River Laboratories International, Inc.	2.4
TOTAL	30.7

Review & Outlook

The portfolio performed quite well for the first 10+ months of the year due largely to stock-specific performance. However, the rest of 2016, in the wake of the U.S. presidential election, was a challenging period for the strategy, leading to underperformance for the quarter and erasing our relative gains in 2016. While a couple of specific stocks certainly detracted from fourth-quarter results, the dominant factor weighing on the portfolio was the political “regime change” and subsequent shift in sentiment driven by speculation about the incoming Trump administration. The market events of the past few months have consumed our thinking and the remainder of this commentary largely attempts to share some of our thinking on the subject.

We can now begin to discuss two highly distinct periods with regard to the economy and stock markets: pre-Trump and post-Trump. Prior to the election, the world was a familiar one. The U.S. economy was growing consistently, albeit at a lackluster rate – a feat nonetheless envied by other developed economies. This growth was powered by the service sector, while industrial markets remained mired in recessionary conditions. Tailwind growth was scarce and interest rates were low, so companies with a strong ability to create their own growth commanded a scarcity premium vs. companies more dependent on cyclical shifts. Then, Donald Trump was elected President, and seemingly overnight the world changed.

On the Monday prior to the election, the market rallied on weekend polls showing Hillary Clinton with a sizable electoral lead. A Hillary win meant the status quo—we would avoid the large uncertainty stemming from a Trump presidency. On election night, exit polls showed Mr. Trump doing better than expected in some key states, and market futures moved to lock limit down as this progressed during the evening. (We spent the night and the early morning constructing a purchase list should a “Brexit” moment materialize in U.S. markets.) The anticipated sell-off did not occur and, as the markets held their ground, a new speculative consensus formed. Below is our attempt to summarize the historic post election (small-cap) market move, and the sentiment/belief driving these events.

What happened	What the market seems to be thinking
U.S. equity market rose to near-record high	<i>A Republican sweep ends gridlock, potentially setting the stage for dramatic pro-growth and capital-friendly legislation</i>
Small-cap stocks demonstrated their best performance since 2009	<i>If U.S. reduces corporate taxes, it would benefit small caps with primarily domestic revenue</i> <i>If overseas cash is repatriated, we may see a renewed wave of M&A activity</i>
Within small-caps, value dramatically outperformed growth	<i>Potential for renewed stimulus may spur inflation and a rise in rates, coupled with a steepening of the yield curve; small value stocks tend to be more closely aligned with these drivers. (For example, yield curve may drive bank stocks; fiscal stimulus may drive infrastructure-adjacent companies)</i>

This investment narrative quickly drove speculation and a sizable sector rotation in the market. In order to gain exposure to the themes noted above, many investors utilized ETFs, eschewing bottom-up analysis in favor of top-down allocation. For the year, approximately \$17 billion poured into small-cap ETFs, with the vast majority of that figure coming in the last few weeks of the year. By 2016's conclusion, the Russell 2000® Value Index reached an all-time high, and the broader Russell 2000® Index was trading at a lofty 21 times earnings. The key takeaways for us were that this speculative move was quite large, and appeared to have lacked idiosyncratic discernment for many investors.

Currently the small-cap market appears to be fairly valued—so long as economic growth does in fact materialize as the market is projecting, and corporate tax relief does in fact come to pass. It may be fully valued if some of the potential positives mentioned earlier fail to materialize. We are encouraged by an apparent improvement in small-cap earnings growth and an emerging relative opportunity in our favored “compounders”—in other words, firms that can consistently reap the rewards of capital allocation at or above their cost of capital, leading

to attractive and durable growth over time.

As we level our thoughts, we begin 2017 with cautious optimism. We are hopeful, and acknowledge that the long-term impacts of the policy directives of the incoming administration may be demonstrably positive. However, great uncertainty clouds the year to come, and the speculative gyrations we have seen in the market so far may not fully account for the complexities of the political process that lies ahead.

We are thus preparing for greater volatility by bolstering our research into economic segments where we currently have low relative exposure. For example, our team prioritized the consumer sector in 2016 and changed a sizable underweight to a modest overweight over a multi-quarter period, without bending our investment philosophy nor venturing into the subsectors we have traditionally viewed as secularly disadvantaged. Sentiment shifts may present some compelling values in new areas as we progress through 2017.

Additionally, given the advanced age of the current bull market and economic recovery, we are highly focused on quality and downside protection in the portfolio—factors that matter less and may even hurt us during robust periods, but certainly pay handsome dividends when markets sour. With recent adjustments we are emphasizing high conviction and high durability, as we stress test our investment logic and earnings forecasts going into a new year. Encouragingly, we have seen signs that sector correlations continue to move lower. We have bemoaned the lack of differentiated returns in our market in recent commentaries, as it is challenging for us as bottom-up investors who, by definition, look for outsized progress in one name vs. another. Some environments are conducive to idiosyncratic portfolio structure and others are not.

The value of the portfolio has marched higher over the last several years. Recently, we have had M&A activity in the portfolio, some of our names have reached our targets for them, and some have seen a few mistakes play out—all of this has generated more transactional activity than is typical for us. However, due to the growth and increased productivity of the investment team dedicated to this strategy, we have been able to efficiently reinvest the cash generated from these transactions, even in a market with elevated valuations. As always, our goal is to patiently drive the most favorable portfolio upside/downside possible without sacrificing overall diversification.

The philosophy of our investment team has not changed and we are pleased with the historical evidence of its effectiveness. We practice a bottom-up, long-term, disciplined approach to finding, owning and closely monitoring a diverse collection of businesses with the potential to compound from small- to mid- to large-cap status. In order to raise the probability of our companies making this journey, we seek out businesses that possess what we call “3G” characteristics: durable Growth, sound Governance and scalable Go-to-market strategies. This results in a quality-focused portfolio with very high active share vs. our benchmark. Our goal is to keep up during robust market periods through thoughtful decisions and appropriate weighting of individual holdings, while mitigating downside risk through careful portfolio construction. We acknowledge that with more capital flowing into small-cap indices and ETFs since the end of the Great Recession, this philosophy appears to be producing modestly higher short-run variance vs. our Russell 2000® Growth Index benchmark. However, we still believe the path we are on is the right one to producing our desired risk-adjusted absolute and relative returns over a full market cycle, assuming strong execution against the process. Our team will continue to work hard to make sure the portfolio can weather whatever we face on the road ahead. [B](#)

Sector Diversification

- Consumer discretionary, a consistent underweight, has expanded into an overweight position as we identified new opportunities in the sector. However, we remain consistently underweight traditional consumer names such as apparel, retail & restaurants.
- Consumer staples remained largely consistent.
- Energy, in a direct fashion, continues to be absent from the portfolio, but we do possess indirect exposure.
- Financials remained largely consistent. It is worth noting that many of our technology holdings could be more appropriately classified as financial firms.
- Industrials demonstrated strong absolute performance and increased in overall weight.
- Information technology composition has evolved in 2016 with the result being a modest decline in overall weighting. We believe our true exposure to technology is closer to that of the benchmark.
- As in prior quarters we have no holdings in materials, real estate or utilities.
- Our single telecommunications holding performed well in 2016, driving our weighting higher.

SECTOR	SMALL-CAP GROWTH REP. ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	SMALL-CAP GROWTH REP. ACCOUNT (%)	
	Q4 '16	Q4 '16	Q4 '16	Q3 '16	Q4 '15
Consumer Discretionary	17.46	15.70	1.76	13.16	11.37
Consumer Staples	2.39	3.14	-0.75	2.40	2.20
Energy	--	1.40	-1.40	--	--
Financials	2.96	5.65	-2.69	2.15	3.40
Health Care	15.07	20.86	-5.79	16.46	20.52
Industrials	22.81	16.68	6.13	21.62	21.67
Information Technology	35.34	24.20	11.14	40.68	37.76
Materials	--	5.23	-5.23	--	--
Real Estate	--	5.48	-5.48	--	--
Telecommunication Services	3.92	0.83	3.10	3.46	3.08
Utilities	--	0.84	-0.84	--	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- The presidential election prompted a comprehensive shift in sector & subsector leadership during the fourth quarter. Heading into the election, we had built a sizable lead on the benchmark largely via stock selection, and were poised to deploy capital into any weakness driven by political uncertainty. This did not materialize and the rally did not favor our primary exposures. We also had several individual holdings that held back portfolio 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	14.81	-3.66	15.54	7.74	-0.09	-1.59	-1.68
Consumer Staples	2.39	-11.48	3.13	3.38	0.03	-0.39	-0.36
Energy	--	--	1.28	7.37	-0.04	--	-0.04
Financials	2.58	37.17	5.23	19.60	-0.38	0.36	-0.02
Health Care	15.50	-11.60	21.92	-6.94	0.69	-0.82	-0.13
Industrials	23.20	7.10	16.14	10.97	0.55	-0.92	-0.37
Information Technology	37.76	-3.71	24.69	1.98	-0.24	-2.14	-2.38
Materials	--	--	5.15	7.19	-0.17	--	-0.17
Real Estate	--	--	5.33	2.75	0.07	--	0.07
Telecommunication Services	3.71	13.50	0.79	12.44	0.25	0.05	0.30
Utilities	--	--	0.80	8.95	-0.03	--	-0.03
Total	100.00	-1.23	100.00	3.59	0.64	-5.45	-4.81

Sector attribution excludes cash and cash equivalents.

Year-to-Date Attribution Detail by Sector

- Performance was quite positive for 10+ months but faltered into the end of the year following the election. Despite being underexposed to the areas which benefited from the “Trump bump,” most sectors performed reasonably well on a full-year basis. The clear exception was consumer discretionary where we had two holdings that pressured results. In both cases we considered the movement in those names as driven by momentum, and we added meaningfully to both holdings on weakness.

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	11.61	-6.75	16.93	13.18	-0.17	-2.76	-2.92
Consumer Staples	2.44	-4.86	3.38	12.65	-0.06	-0.35	-0.41
Energy	--	--	1.09	29.38	-0.18	--	-0.18
Financials	2.34	43.66	4.79	19.67	-0.24	0.37	0.13
Health Care	17.16	-8.71	23.47	-9.55	1.68	0.57	2.25
Industrials	23.15	27.33	14.74	27.97	1.65	-0.49	1.16
Information Technology	39.76	16.98	24.97	17.26	0.84	0.48	1.31
Materials	--	--	4.67	29.10	-0.78	--	-0.78
Real Estate	--	--	4.68	19.74	-0.19	--	-0.19
Telecommunication Services	3.49	24.10	0.81	25.92	0.47	-0.08	0.40
Utilities	--	--	0.48	9.26	0.04	--	0.04
Total	100.00	12.12	100.00	11.35	3.06	-2.29	0.77

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **Cogent Communications** reported positive quarterly results and continued to bolster its capital distribution to shareholders.
- **ConnectOne Bancorp** benefited from a steepening of the yield curve following the election.
- **Esco Technologies** reported strong quarterly results and announced an interesting accretive acquisition in our view.
- **Prosperity Bancshares**, a Texas-based bank, benefited from rising rates and rising oil prices during the period.
- **Hexcel Corp** once again posted strong results and outlined an encouraging picture of free cash flow generation over the next few years.
- **Liberty TripAdvisor**, which represents the majority voting control stake of TripAdvisor, was the largest detractor during the period. The company is undergoing a business model transition that has the potential to be incredibly positive in the upcoming years. However, the transition has taken longer than our original expectations. We still believe our investment thesis remains sound and view 2017 as a pivotal year in verifying the underlying value drivers we see in the holding.
- **Diplomat Pharmacy** declined on the surprising news that a once insignificant – and thus undisclosed – fee charged by pharmacy benefit managers had suddenly ballooned into a massive short-term and intermediate-term hit to cash flow. Absent this dramatic fee change, we believe the financial results were largely in-line with embedded expectations.
- **BroadSoft** pulled back after reaching a 52-week high.
- **The Advisory Board Company** reported sluggish results, dragging the stock lower, although we had reduced and, by year end, eliminated the position as our confidence in the business's organic growth profile was impaired.
- **TreeHouse Foods** tempered expectations around its acquisition of ConAgra's Private Brands business.

SMALL-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
CCOI	Cogent Communications Holdings Inc	3.71	13.50	0.54
CNOB	ConnectOne Bancorp, Inc.	1.19	44.28	0.45
ESE	ESCO Technologies Inc.	2.10	22.21	0.44
PB	Prosperity Bancshares, Inc.(R)	1.39	31.41	0.39
HXL	Hexcel Corporation	2.27	16.40	0.36
SMALL-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
LTRPA	Liberty TripAdvisor Holdings Inc Class A	2.78	-31.12	-1.05
DPLO	Diplomat Pharmacy, Inc.	0.52	-55.02	-0.46
BSFT	BroadSoft, Inc.	3.23	-11.39	-0.43
ABCO	Advisory Board Company	0.88	-25.68	-0.35
THS	TreeHouse Foods, Inc.	1.55	-17.20	-0.35

Year-to-Date 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.
- In early September, Genesys announced a definitive agreement to acquire **Interactive Intelligence** in an all-cash deal for \$60.50 per share. The deal represented a 36% premium to ININ's stock price on July 28, 2016, which was the trading day prior to media reports that ININ had hired an advisor to explore strategic alternatives.
- **Demandware** was acquired at nearly a 60% premium by Salesforce.com.
- **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.
- **Liberty TripAdvisor**, which represents the majority voting control stake of TripAdvisor, was the largest detractor during the period. The company is undergoing a business model transition that has the potential to be incredibly positive in the upcoming years. However, the transition has taken longer than our original expectations. We still believe our investment thesis remains sound and view 2017 as a pivotal year in verifying the underlying value drivers we see in the holding.
- **The Advisory Board Company** reported sluggish results, dragging the stock lower, although we had reduced and, by year end, eliminated the position as our confidence in the business's organic growth profile was impaired.
- **Diplomat Pharmacy** declined on the surprising news that a once insignificant – and thus undisclosed – fee charged by pharmacy benefit managers had suddenly ballooned into a massive short-term and intermediate-term hit to cash flow. Absent this dramatic fee change, we believe the financial results were largely in-line with embedded expectations.
- **Accelaron** roughly doubled in price during the tail-end of 2015, then gave the majority of those gains back during the year in a very challenging market for biotechnology stocks.

SMALL-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
WCN	Waste Connections, Inc.	4.93	40.40	2.09
ININ	Interactive Intelligence Group, Inc.	2.20	92.55	1.65
DWRE	Demandware, Inc.	1.00	38.91	1.25
IDXX	IDEXX Laboratories, Inc.	2.41	60.82	1.23
CCOI	Cogent Communications Holdings Inc.	3.49	24.10	1.06
SMALL-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
LTRPA	Liberty TripAdvisor Holdings Inc Class A	2.75	-50.40	-2.00
ABCO	Advisory Board Company	1.30	-32.98	-0.93
DPLO	Diplomat Pharmacy, Inc.	0.83	-63.18	-0.61
XLRN	Accelaron Pharma Inc.	0.63	-47.66	-0.54
ENT	Global Eagle Entertainment, Inc.	0.91	-34.55	-0.48

- Global Eagle has frustrated investors due to a sizable number of moving pieces that make this relatively small company challenging to analyze. Our view is that while the company has faced disappointments since we initiated a position, the management team appears to be executing a plan to reach critical scale and diversify the revenue composition of the business. We were encouraged recently by the company's renewal of its all-important contract with Southwest and its ability to secure an investment and creation of a joint venture with a Chinese entity that promises to increase its connectivity business in a critical geography. We increased our position on weakness, although there are limits to the exposure we want given its size and the nature of the company.

Portfolio Activity

- We added **Agios Pharmaceuticals**, taking advantage of price weakness in this relatively stable biotech firm.
- We believe that **Catalent’s** fundamentals should improve as internal headwinds negate.
- We believe that **KEYW Holding Corp** is exposed to the right areas with defense and intelligence spending, and that its new management team and sales organization can accelerate growth over the next two years.
- **Liberty Interactive** should see expanding free cash flow of its underlying media assets against a relatively low valuation, driving a higher per-share value over time.
- **MakeMyTrip** effectively consolidated the India online travel agency market, and its near-monopoly position should make it a strategic asset and one that will be able to take advantage of the inherent high growth in its end markets.
- **Advisory Board**, **CEB** and **Omeros** were eliminated as we lost conviction on the names, while **Press Ganey** and **Interactive Intelligence Group** were take-outs during the quarter.

SMALL-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
AGIO	Agios Pharmaceuticals, Inc.	Health Care
CTLT	Catalent Inc	Health Care
KEYW	KEYW Holding Corporation	Industrials
LVNTA	Liberty Interactive Corporation Ventures Series A	Consumer Discretionary
MMYT	MakeMyTrip Ltd.	Consumer Discretionary
DELETIONS		SECTOR
ABCO	Advisory Board Company	Industrials
CEB	CEB Inc.	Industrials
ININ	Interactive Intelligence Group, Inc.	Information Technology
OMER	Omeros Corporation	Health Care
PGND	Press Ganey Holdings, Inc.	Information Technology

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)
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
2006	8.7	8	13.3	16.2	15.6	14	0.4	605	6,770

Brown Advisory claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory 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.

1. Brown Advisory, an independent investment management firm is defined as: 1) Brown Investment Advisory and Trust Company ("BIATC"), 2) its subsidiary Brown Investment Advisory Incorporated ("BIAI") and selected affiliated investment advisors, including from July 2008, 3) Alex. Brown Investment Management, LLC ("ABIM") from July 2010, 4) Winslow Management Company, LLC ("Winslow") and 5) Brown Advisory Cavanaugh, LLC ("BAC") and from April 2013, 6) Brown Advisory, Ltd. Effective January 2012, all of the above entities except BIATC and Brown Advisory, Ltd combined into Brown Advisory LLC, a registered investment adviser. Registration does not imply a certain level of skill or training.
2. 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.
3. This composite was created in 1997.
4. 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.
5. 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.
6. 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.
7. 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.
8. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request..
10. Past performance does not indicate future results.
11. This piece is provided for informational purposes only and should not be construed as a research report, a recommendation, or an offer to buy or sell a security, 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 12/31/2016 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

Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value 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 larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. Russell® is a service mark and trademark related to the FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. **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.