U.S. Smaller Companies Fund

2018 Year in Review

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For the calendar year, the U.S. Smaller Companies Fund[1] returned -4.32% versus -9.49% for the Russell 2000 Growth Net Index.

Our Fund strives to produce attractive risk-adjusted returns over a full market cycle through long-term security selection. Stock-specific performance drives our ability to keep pace in "risk-on" markets, while portfolio diversification, asset quality and valuation sensitivity have helped to produce solid downside capture over time. Put more simply, we try to take risks when we are getting paid to do so and to avoid them when we are not. We want to think like owners of a business versus renters of stock, but acknowledge that when our thesis is violated, it is usually time to part ways with a holding. We believe that this approach, which has been in place since the second quarter of 2006 for the strategy that governs this fund, is an effective one for driving sound long-term results.

Looking back at 2018, the first eight months were not materially different than the ultra-low-volatility, multiple-expanding, momentum-based 2017 rally. The portfolio fared pretty well in the first two thirds of the year as stock picking drove gains modestly ahead of our primary benchmark, the Russell 2000 Growth Index, in a market environment that was somewhat unfriendly to our approach. Then, things changed and risk-on turned to risk-off suddenly (as it usually does) and the portfolio's downside capture allowed it to pull meaningfully ahead of the Index by the end of the year.

While we believe that we were positioned well for the end of astronomically high valuations and a return of volatility, we initiated several select "defensive" positions that failed to act according to plan. In each of these positions, a handful of relatively small negative events combined to produce poor quarters that were reported during a very bad period for reporting poor quarters! We are reminded of the sage words of our favorite philosopher, Mike Tyson, "…everyone has a plan until they are punched in the face…" Despite taking it on the chin unexpectedly one or two times in the fourth quarter, it was a solid year. Most importantly, our results came via stock selection that was balanced across sectors and which represents the byproduct of measurable team productivity improvement. In the year, we interviewed more companies, which increased our new idea pipeline, which increased our "on deck" circle, which in turn led to more actionable investments, which we believe helped improve results. As bottom-up investors, we spend very little time attempting to predict what the global macro has in store next; however, we do ask ourselves whether it is the time to take a little more risk or be a little more cautious in our affairs. Choosing the latter certainly helped at the tail end of 2018 given the way the economy and market unfolded.

Nearly all of the decision making within the portfolio is informed by our company-specific conversations and due diligence. We attempt to stack up data points, conduct a thorough analysis and invest in a business when we believe that the future is going to be better than what the market presently expects. At times, we are considering numerous new investments for inclusion into the portfolio. When one company appears vastly superior in its risk/reward dynamics and/or has characteristics that we believe make it a highly probable long-term compounder, our decision process is quite easy. However, there are times when several businesses appear roughly equivalent in their attributes. What then? It is at this point that we look critically at the portfolio to determine where we have potential over- or under-exposures to various market sub-sector or factors. It is at this point where we also think about the overall investment landscape in the hope of tilting the investment odds in our favor with each incremental decision. Here is what we see today: for much of the past year, the market remained in a state of relatively low volatility and high valuation. The downdraft and violent price movements of the fourth quarter took us from extreme levels to somewhere closer to normal. For the entire year, small-cap volatility was about average. Absolute valuations moved from the 99th percentile to something simply above average. Investors started to contemplate risks, not just potential gains.

We believe that volatility is the enemy of the short-term investor and the friend of the long-term investor. Given recent price movements, portfolio activity has been higher than average as we shift the portfolio in light of a changing opportunity set. We

[1]Brown Advisory U.S. Smaller Companies Fund B USD share class, net of fees.

feel as though we have entered 2019 with a constructive balance of legacy and new holdings, offense and defense, and growth at reasonable values.

Our top contributors for the year were mainly health care and technology names. **Cotiviti Holdings**' private equity-backed competitor, Verscend, announced it would acquire the company for $44.75, a 32% premium to its pre-rumor share price. This made Cotiviti (+38.9%) our best performer in 2018. **BeiGene Ltd.** (+109.3%) focuses on developing molecularly targeted, immune-oncology drugs for cancer patients. Their lead drugs, Zanubrutinib, Tiseluzumab, and Pamiparib have all demonstrated impressive efficacy in patients, which led to BeiGene's outperformance earlier in the year. At the same time, the area where each of these drugs compete has grown more competitive and we felt the stock had become overvalued. Thus, we took advantage of the stock's meteoric rise and exited the position. **Aspen Technology, Inc.** (+24.1%) reported solid financial results as its core product growth accelerated and customer interest in its new application performance monitoring (APM) suite appears robust. This new product launch should help to dampen revenue growth cyclicality should global economies continue to weaken and commodity prices with them.

Detractors for the year included health care holding, **Catalent Inc.** (-24.1%), which reported disappointing quarterly results where topline growth was pressured by the persistent global shortage of ingredients for ibuprofen, coupled with a decision by a customer to move its product's manufacturing in-house. Despite these pressures, management reiterated its 2019 revenue and profitability guidance. The counterbalance to these headwinds was the launch of new products that contributed ~$50M to the quarter and the likely abatement of the ibuprofen issue in the second half of 2019. Another detractor, **TopBuild Corporation** (-39.4%), a leading provider of residential and commercial insulation products, declined along with the entire housing complex despite reporting solid results. While rising interest rates may slow housing demand, we believe that the long-term backdrop for housing is stable-to-positive and that TopBuild should be a consolidator in a highly fragmented industry.

As mentioned previously, our pipeline productivity and recent market volatility has led to a step-up in portfolio activity. We purchased and elminated positions across every economic sector of focus within the portfolio over the year.

Equity markets have re-based. There is now a greater appreciation of risk as FOMO (fear of missing out) has been replaced with a more cautious approach. If the economic environment slows benignly and the Federal Reserve leans dovish, we believe that the conditions for positive equity returns exist for 2019. However, the markets are not yet pricing in a more material U.S. economic slowdown. All one has to do is look broadly across earnings estimates to see that a down cycle is not yet built into stock prices. Last year, the U.S. market tumbled to a position more in line with global markets. The key today is whether our economy does the same in 2019.

While we certainly bought risk selectively in the fourth quarter of 2018, we remain focused on relative downside protection against illiquidity, leverage and unappreciated cyclicality. As we enter 2019, our industrial and information technology weights are down and we are selectively adding to consumer discretionary/staples and health care as valuations have compressed.

The Fund posted a solid calendar year on a relative basis, but as large shareholders ourselves, we would have certainly desired to post positive returns versus mildly negative ones. As we look ahead, we know that people and process drive long-term outcomes. In this regard, we are pleased to report that our team has never been stronger, our process more sound, or our productivity higher. 2018 has been an excellent year for company interviews, pipeline building and new investment activity. These are the leading indicators that we monitor to determine whether our probability of outperforming is improving or not. Overall, we believe that we are in good form and I would like to thank the team for their dedication and hard work. We remain focused on generating attractive risk-adjusted returns over a full market cycle. In order to do so, we need a strong team and process, but we also need patient, thoughtful and well-informed investors to enable us to continue to take a long-term, high active share approach. Our philosophy is built on harnessing the power of compounding, driving returns through stock selection and mitigating downside risk through diversification, quality and valuation sensitivity. We look forward to the year ahead and to updating you on our progress. We greatly appreciate your support and interest in the Fund.

Past performance may not be a reliable guide to future performance and you may not get back the amount invested.

Performance data above relates to the Brown Advisory U.S. Smaller Companies Fund. The performance is net of management fees and operating expenses. This communication is intended only for investment professionals and those with professional experience of investing in collective investment schemes. Those without such professional experience should not rely on it. The Fund's investment strategy is the same as the Brown Advisory Small-Cap Growth strategy which was established in March 1993. Long-term performance available upon request. Changes in exchange rates may have an adverse effect on the value price or income of the product. The difference at any one time between the sale and repurchase price of units in the UCITS means that the investment should be viewed as medium to long term. This factsheet is issued by Brown Advisory Ltd, authorised and regulated by the Financial Conduct Authority. This is not an invitation to subscribe and is by way of information only. Cancellation rights do not apply and UK regulatory complaints and compensation arrangements may not apply. This is not intended as investment advice. Investment decisions should not be made on the basis of this factsheet. You should read the Fund's prospectus in full to understand the features and risks associated with this Fund. The Fund's prospectus and Key Investor Information Document are available by calling 020 3301 8130 or visiting the Brown Advisory website.

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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 Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. Both indices are completely reconstituted annually. The Russell 2000® Growth Index and the Russell 2000® Index are trademarks/ service marks of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company. An investor cannot invest directly into an index.