U.S. Small-Cap Blend Fund

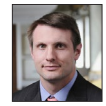
QUARTERLY UPDATE

Fourth Quarter 2016

Review & Outlook

CHRISTOPHER A. BERRIER
Portfolio Manager, Small-Cap Growth

J. DAVID SCHUSTER
Portfolio Manager, Small-Cap Fundamental Value



PERFORMANCE (%)

	RETURNS NET OF FEES*	RUSSELL 2000® INDEX
3 Mos.	4.88	8.83
1 YR	15.56	21.31
3 YR	5.88	6.74
ITD (8 Jul 2013)	10.06	10.40

*U.S. Small-Cap Blend Fund B USD share class net of fees.

CHARACTERISTICS

	SMALL-CAP BLEND FUND.	RUSSELL 2000® INDEX
P/E Ratio (FY2 Est.)	21.6x	18.6x
Earnings Growth 3-5 YR Estimate	14.0%	12.6%
Weighted Avg. Market Cap.	$3.3 B	$2.1 B
Weighted Median Market Cap.	$2.6 B	$1.9 B
PEG Ratio	1.5x	1.5x

TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Waste Connections, Inc.	2.2
Albany International Corp. Class A	2.2
Broadridge Financial Solutions, Inc.	2.1
Synovus Financial Corp.	2.1
Core-Mark Holding Company, Inc.	1.9
EchoStar Corporation Class A	1.9
American Capital, Ltd.	1.8
Cogent Communications Holdings Inc	1.8
Forest City Realty Trust Inc Class A	1.6
Virtus Investment Partners, Inc.	1.5
TOTAL	19.1

The U.S. Small-Cap Blend Fund aims to achieve capital appreciation through a combination of the Brown Advisory U.S. Small-Cap Growth and U.S. Small-Cap Value strategies. The allocation is currently 50%-50%. This is not a fund of funds. The Fund is diversified and style-agnostic making it more reflective of the broad U.S. small-cap universe.

U.S. SMALL-CAP GROWTH STRATEGY

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	*A Republican sweep ends gridlock, potentially setting the stage for dramatic pro-growth and capital-friendly legislation*
Small-cap stocks demonstrated their best performance since 2009	*If U.S. reduces corporate taxes, it would benefit small caps with primarily domestic revenue* *If overseas cash is repatriated, we may see a renewed wave of M&A activity*
Within small-caps, value dramatically outperformed growth	*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)*

CONTINUED

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.

Small-cap stocks ended 2016 in a dramatic fashion. Share prices appreciated rapidly after the election on the belief that small-caps would benefit from several themes that investors anticipate from the incoming administration. For one, smaller companies may benefit disproportionately from potential tax cuts, as they pay a higher tax rate relative to many larger firms. Secondly, a significant infrastructure program could boost the revenues of many small domestic cyclical companies. Finally, pro-growth policies and a reduced regulatory burden may serve to re-accelerate economic growth. While we have no idea if any of these will or will not come to pass, or under what terms, investors looked to the small-cap value sector to express their optimism. Even after falling during October, the Russell 2000® Value Index, the strategy's benchmark, ended the quarter up 14.1%, well ahead of the S&P 500® Index which was up 3.8% for the quarter and even the Russell 2000® Growth Index which was up 3.6%. ETF activity was particularly high with nearly $14 billion going into small-cap ETFs during the quarter which was a substantial portion of the 2016 activity, mostly occurring after the election.

The strategy had a strong quarter on an absolute basis, but trailed its benchmark. Given the rapid rise in the market, we were pleased to participate as meaningfully in the rally as we did. During October, as the markets fell, we outperformed on a relative basis. It was during the post-election period in November, when the benchmark made its major move upward, that the strategy saw the bulk of its underperformance for the quarter. The strategy trailed on a relative basis going into the quarter, so the fourth quarter's results expanded the relative underperformance for the year.

As noted, it will be some time before the new administration begins to actually implement policy, but already we have seen several tangible macroeconomic factors begin to impact current financial performance of small-cap companies. The first is a steepened yield curve, which bodes well for bank net interest margins generally. The financial sector was the strongest performing sector for the quarter. As part of our investment process we intentionally do not try to invest in companies that are reliant on rate increases to generate increased profitability. So while our financial investments were up materially, they did not keep pace with the broader financial sector and especially those companies with highly asset-sensitive balance sheets. The second-best sector performance came from the energy sector, as oil prices recovered from the rapid decline over the past year. Even though energy constitutes only 5.1% of the benchmark's Index, energy proved to be our largest detractor for the year and the second largest detractor for the quarter.

Our underweight in utilities and our investments in the real estate segment were our strongest relative contributors. In addition, many of our smaller, less-liquid investments appreciated meaningfully during the quarter. Our 10 best-performing stocks appreciated an average of 37% for the quarter, and eight of these are small positions (less than 1% of the portfolio) due to their lower level of liquidity. Trading activity was fairly high during the quarter, with respect to new investments as well as existing holdings. We made five new investments in the quarter—three consumer discretionary names, one industrial company and one real estate company. The total was higher than normal due to the sharp rise in a number of previous investments that moved upward before we could establish full positions. Trading activity was also high as we sought to reallocate capital within the portfolio.

As discussed in earlier updates, the portfolio saw a high level of deal activity in 2016. During December, Destination Maternity finally announced the terms of its merger with Orchestra Prémaman. We were disappointed in the final terms, which were materially below initial expectations, and we sold our investment. In early January, we anticipate that both the American Capital sale to Ares Capital and the tri-party merger of Northstar Asset Management and Northstar Realty Finance with Colony Capital will be completed. Given the rapid rise in the markets, these represented a drag on performance, but we were pleased to be able to capture the meaningful remaining spread embedded in the transactions. Given the high level of trading activity, our cash position came down from the end of the third quarter, but we expect it to rise again in early January with the closing of these transactions (which include a cash component).

We were cautious with regard to our universe's prospects coming into 2016, and we continue to be cautious leaving the year. In particular, we note a number of risks that emerged during the quarter. First, there is a natural skepticism surrounding the ability of the new administration to deliver on its economic promises. Given the rise of small-cap shares and the continued expansion of valuations, any delay or reset of expectations will likely add significant downside pressure to share prices. Second, while small-cap companies are focused on domestic markets, they are not immune to a strengthening dollar. During the rapid decline in small-cap shares in the first quarter, a strong U.S. dollar was highlighted by a number of small-cap cyclical companies as a major headwind given its positive impact for international competitors. We have already heard of some situations where the strong U.S. dollar is negatively impacting business results. Finally, the flows into ETFs are troubling. We do not think it is a coincidence that some of our smallest, most illiquid investments experienced such strong price appreciation during the quarter. Market commentators have highlighted that some 90% of all new investment flows since the election have come through either ETF vehicles or some variation of a risk-parity strategy. Given the tight trading spreads of ETFs (especially relative to their underlying investments), there seems to be the implication that liquidity will be available given a downward price adjustment. Given the recent flows, ETFs clearly increase the potential to exacerbate any downside movement.

2016 was a tumultuous year. It year started with extreme pessimism and fear among investors, and ended with unbridled optimism. This year, just like in years past, we will continue to do what we believe will work over the long run: find underappreciated companies generating consistent cash flows trading at attractive valuations.

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.
- Our allocation to industrials and real estate rose during the quarter. We initiated a new position in Continental Building Products (an industrial name) and in Xenia Hotels & Resorts (a real estate name).
- 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.
- Our position in materials declined as we reduced a few positions due to valuations.

SECTOR	U.S. SMALL-CAP BLEND FUND (%)	RUSSELL 2000® INDEX (%)	DIFFERENCE (%)	U.S. SMALL-CAP BLEND FUND (%)	
	Q4 '16	Q4 '16	Q4 '16	Q3 '16	Q4 '15
Consumer Discretionary	16.17	12.72	3.45	13.72	14.20
Consumer Staples	2.00	2.95	-0.95	2.15	1.86
Energy	0.98	3.33	-2.36	1.16	1.90
Financials	19.24	19.87	-0.63	18.45	19.68
Health Care	8.85	12.12	-3.27	10.19	12.05
Industrials	18.97	14.93	4.04	18.14	17.27
Information Technology	22.21	16.90	5.30	25.57	23.90
Materials	3.94	4.93	-0.99	4.39	4.24
Real Estate	3.84	7.93	-4.09	2.98	1.84
Telecom. Services	3.59	0.75	2.84	3.13	3.06
Utilities	0.19	3.54	-3.35	0.09	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- In the fourth quarter the portfolio return lagged the Russell 2000 index, with health care being our biggest weakness.
- In consumer discretionary, we saw weakness within the specialty retail sector. In financials, the weakness was due to our underweight in banks with highly asset-sensitive balance sheets. However, Synovus Financial Corp. and Primerica (both financial holdings) were two of our top contributors for the quarter.

SECTOR	U.S. SMALL-CAP BLEND FUND		RUSSELL 2000® INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	14.67	2.15	12.87	7.94	-0.04	-0.82	-0.86
Consumer Staples	2.07	-5.13	2.99	6.28	0.04	-0.26	-0.22
Energy	1.11	10.16	3.04	20.33	-0.20	-0.09	-0.29
Financials	19.17	19.98	18.71	23.31	0.08	-0.59	-0.51
Health Care	9.27	-10.14	12.99	-6.01	0.59	-0.46	0.13
Industrials	19.00	10.21	14.81	12.08	0.16	-0.38	-0.21
Information Technology	23.58	-0.99	17.34	5.22	-0.25	-1.46	-1.71
Materials	4.14	10.71	4.89	11.14	-0.01	-0.08	-0.09
Real Estate	3.43	5.62	7.91	3.88	0.26	0.04	0.30
Telecom. Services	3.38	17.71	0.74	9.12	0.01	0.27	0.28
Utilities	0.17	12.69	3.70	5.28	0.14	0.01	0.15
Total	**100.00**	**5.79**	**100.00**	**8.84**	**0.81**	**-3.87**	**-3.05**

Sector attribution excludes cash and cash equivalents.

Year-to-Date Attribution Detail by Sector

- For the full year, we saw underperformance in a variety of sectors.
- Underperformance in energy was largely due to our second biggest detractor over 2016, Par Pacific Holdings.
- In consumer discretionary and staples weakness was due to stock specific names.

SECTOR	U.S. SMALL-CAP BLEND FUND		RUSSELL 2000® INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Consumer Discretionary	14.01	2.63	13.51	13.43	-0.08	-1.75	-1.84
Consumer Staples	2.10	2.53	3.30	22.09	-0.06	-0.40	-0.47
Energy	1.30	-27.97	2.53	38.30	-0.29	-0.98	-1.27
Financials	18.43	36.47	17.53	34.41	0.12	0.24	0.36
Health Care	10.42	-10.29	13.82	-7.42	1.26	-0.18	1.08
Industrials	18.61	33.60	13.86	30.01	0.50	0.48	0.98
Information Technology	24.77	18.90	17.58	23.47	0.16	-0.67	-0.51
Materials	4.25	42.14	4.36	47.28	0.01	-0.26	-0.24
Real Estate	2.83	17.24	8.72	22.34	-0.32	-0.09	-0.42
Telecom. Services	3.21	15.38	0.78	20.53	0.09	-0.24	-0.15
Utilities	0.05	22.60	4.00	23.92	-0.16	0.00	-0.16
Total	**100.00**	**18.65**	**100.00**	**21.33**	**1.27**	**-3.94**	**-2.67**

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **Synovus** saw strength as the financial services sector, and banks specifically, strongly outperformed the broader indexes following the election. The outperformance was driven by large inflows into the sector following what was an uneventful year from a fundamental perspective, as investors speculated that banks would benefit from a rising-rate environment under the Trump administration.
- **Primerica** outperformed late in the year, as shares of DOL-exposed investment managers rose on the hope of a less-burdensome regulatory regime.
- **EchoStar** outperformed due to the anticipation of four satellite launches taking place from the fourth quarter of 2016 through the first half of 2017. The EchoStar 19 satellite, which provides additional capacity to allow the firm to expand its consumer broadband subscriber base, launched successfully on December 18th.
- **McGrath RentCorp** was a positive contributor due to a positive ballot measure on education spending in California. The company's strong performance in their modular division and share repurchases supported earnings growth, despite headwinds in their two other business. The company is also seen as a potential beneficiary from potential increases in infrastrcuture spending and corporate tax reform should they occur under the incoming administration.
- **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.
- **Murphy USA's** decline stemmed from two factors: (i) weaker-than-expected Q3 results driven by flooding in Louisiana and supply disruptions along the Colonial Pipeline, and (ii) post-election concerns about what a Trump presidency will mean for Renewable Identification Number (RIN) pricing. We believe the first to be transient in nature. While RINs have been a meaningful and unexpected outsized contributor to Murphy's EBITDA, we remain confident in the company's core operations and have underwritten our investment based on much lower future RIN contribution then we have seen to date.
- **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.

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
U.S. SMALL-CAP BLEND FUND TOP FIVE CONTRIBUTORS				
SNV	Synovus Financial Corp.	2.12	26.66	0.54
PRI	Primerica, Inc.	1.52	30.74	0.44
SATS	EchoStar Corporation Class A	2.03	17.25	0.34
MGRC	McGrath RentCorp	1.38	24.62	0.34
CORE	Core-Mark Holding Company, Inc.	1.67	20.61	0.33
U.S. SMALL-CAP BLEND FUND BOTTOM FIVE CONTRIBUTORS				
LTRPA	Liberty TripAdvisor Holdings Inc Class A	1.36	-31.12	-0.51
MUSA	Murphy USA, Inc.	1.63	-13.86	-0.27
DPLO	Diplomat Pharmacy, Inc.	0.25	-55.02	-0.24
BSFT	BroadSoft, Inc.	1.58	-11.39	-0.22
FCE.A	Forest City Realty Trust Inc Class A	1.60	-9.65	-0.21

- **Forest City (FCE)** was a detractor in the quarter due to an unexpected impairment charge taken in Q3 on their Pacific Park development project, which was exacerbated by the market's rotation out of REITs and other interest rate sensitive stocks. The impairment on the project, a multi-stage residential development adjacent to the Barclays Center in Brooklyn, NY, was due to a revised project timeline and the emergence of competing new supply over recent quarters. This charge takes the carrying value of Pacific Park on FCE's books to zero for accounting purposes; we believe the project will ultimately prove to be value creating. Subsequent to Q3 results, the company announced the collapsing of the A/B share class structure, which will take place in 2017; we believe this is a positive corporate governance step that will serve as a new lever to reduce the steep discount to NAV at which FCE continues to trade. As such, we continue to see a path to substantial value creation from the current price and added to our position in the quarter.

Year-to-Date Contribution to Return

- 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.
- **McGrath RentCorp** was a positive contributor due to a positive ballot measure on education spending in California. The company's strong performance in their modular division and share repurchases supported earnings growth, despite headwinds in their two other business. The company is also seen as a potential beneficiary from potential increases in infrastrcuture spending and corporate tax reform should they occur under the incoming administration.
- **Demandware** was acquired at nearly a 60% premium by Salesforce.com.
- **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.
- **Par Pacific** was a detractor in 2016 as weak global refining margins pressured EBITDA and free cash flow throughout the year. Refining spreads have improved since the fall and the company completed a major turnaround at its Hawaiian refinery during the third quarter which should improve the EBITDA outlook going forward. We believe in management's long-term strategy of deploying capital to utilize PARR's significant outstanding net operating loss carryforwards and have maintained our position.
- **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.
- While there is indeed opportunity from base conversions and internal overhead leverage, **Air Method's** business model remains subject to quarterly volatility, and it faces challenges to certain underlying business drivers. Sentiment and credibility was weighed down by a negative adjustment to synergy expectations from a recent acquisition. That said, much of this is embedded into current stock levels. There is an incredibly low bar set for AIRM, and with 10% free cash flow generation, AIRM has options to generate shareholder value creation, including a recent priority commitment to repurchases.
- **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.

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
U.S. SMALL-CAP BLEND FUND TOP FIVE CONTRIBUTORS				
BR	Broadridge Financial Solutions, Inc.	2.89	25.87	0.92
DGI	DigitalGlobe, Inc.	1.23	82.95	0.88
ININ	Interactive Intelligence Group, Inc.	1.09	92.55	0.84
MGRC	McGrath RentCorp	1.20	61.60	0.70
DWRE	Demandware, Inc.	0.49	38.91	0.70
U.S. SMALL-CAP BLEND FUND BOTTOM FIVE CONTRIBUTORS				
LTRPA	Liberty TripAdvisor Holdings Inc Class A	1.36	-50.40	-0.96
PARR	Par Pacific Holdings Inc	0.88	-37.68	-0.47
ABCO	Advisory Board Company	0.64	-32.98	-0.45
AIRM	Air Methods Corporation	1.09	-24.04	-0.37
DPLO	Diplomat Pharmacy, Inc.	0.41	-63.18	-0.31

Portfolio Activity

- We added **Agios Pharmaceuticals**, taking advantage of price weakness in this relatively stable biotech firm.
- **Carriage Services** is the fourth-largest funeral home and cemetery consolidator in a highly fragmented death care industry. CSV currently operates 167 funeral homes in 27 states and 32 cemeteries in 11 states. The funeral home and cemetery businesses are both high-margin businesses, with average "field level" EBITDA margins above 40%, strong pricing power and barriers to entry. Carriage generates strong levels of free cash flow that is set to spike as the company is rolling off a heavy capex cycle from the past two years. Further, management has proven to be a strong steward of capital that has been able to supplement its organic growth with reasonably priced and accretive acquisitions, and has bought back close to 30% of the company's shares since 2008.
- We believe that **Catalent's fundamentals** should improve as internal headwinds negate.
- **Continental Building** Products is a leading producer of gypsum wallboard and complementary finishing products in the United States and Canada. The company is the #5 player nationally (10% share) but given wallboard's high "weight to value" ratio the industry operates more at the local level. CBPX is a market leader east of the Mississippi with an estimated 30-35% in some key major metropolitan markets. Former parent company Lafarge built the business through acquisitions and greenfield expansion, spending over $575m in capex over its 17 years of ownership before selling it to private equity in 2013. That capital spend has left CBPX with some of the newest and most cost-efficient capacity in the industry that requires very little in terms of sustaining capex (2% of sales) going forward. With EBITDA margins near 30%, we expect free cash flow conversion to remain high for the foreseeable future. The stock currently trades at a discount to the rest of the building products group and has a 10% FCF yield. Finally subsequent to Q2 16 results, CBPX refinanced its $275 million senior secured term loan, lowering its interest rate and pushing the maturity out to 2023. We believe that with net debt / EBITDA now below 2x, minimal capex needs for the foreseeable future, and very little appetite for M&A, the vast majority of FCF should be returned to shareholders through buybacks going forward.
- 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 Ventures** is a tracking stock issued by parent company Liberty Interactive Corp. At current market prices, Charter Communications ("Charter") is ~90% of LVNTA's gross asset value. Charter is the second largest cable operator in the U.S. as a result of the recent merger with TWC and Bright House. Charter's business is highly cash-flow generative, producing ~$2 billion of free cash flow in 2016, and we estimate that could triple by 2020 as the company rolls off a heavy capex cycle and is supplemented by a NOL balance that will shield cash taxes for the next several years. In addition, Charter and Liberty are committed to returning cash to shareholders through buybacks. We estimate share count could be reduced by 20% by 2020. Finally, we think Charter is attractively priced at 7.5x forward EBITDA when adjusting for other LVNTA investments, cash and associated debt.

U.S. SMALL-CAP BLEND FUND PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
AGIO	Agios Pharmaceuticals, Inc.	Health Care
CSV	Carriage Services Inc.	Consumer Discretionary
CTLT	Catalent Inc	Health Care
CBPX	Continental Building Products, Inc.	Industrials
KEYW	KEYW Holding Corporation	Industrials
LVNTA	Liberty Interactive Corporation Ventures Series A	Consumer Discretionary
LORL	Loral Space & Communications Inc.	Consumer Discretionary
MMYT	MakeMyTrip Ltd.	Consumer Discretionary
NTNX	Nutanix, Inc. Class A	Information Technology
XHR	Xenia Hotels & Resorts, Inc.	Real Estate
DELETIONS		**SECTOR**
ABCO	Advisory Board Company	Industrials
CEB	CEB Inc.	Industrials
DEST	Destination Maternity Corporation	Consumer Discretionary
ININ	Interactive Intelligence Group, Inc.	Information Technology
OMER	Omeros Corporation	Health Care
PGND	Press Ganey Holdings, Inc.	Information Technology

- **Loral Space and Communications** consists of a majority economic stake in Telesat, the fourth largest global satellite operator. We believe Telesat will generate stable EBITDA and improving cash flow between now and 2018, with >50% of Telesat's revenue locked up in long-term contracts and declining expected capital requirements in 2017/2018. In addition, both Telesat and Loral have a history of special dividends with a planned 1Q17 dividend that equates to over $8 per LORL share (>20% yield). We believe that through Loral, we are purchasing Telesat at ~7x EBITDA, a discount to satellite peers.
- **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.
- **Nutanix** engages in enterprise virtualization and storage solutions.
- **Xenia Hotels & Resorts** is a lodging REIT that owns a portfolio of 46 hotels across 17 states, operated mostly by large independent management companies such as Marriott, Kimpton and Hilton. For over a year, Xenia's stock has been hit by concerns of broader RevPAR (revenue per available room) deceleration in the U.S., and specifically its outsized (11%) exposure to the Houston market. As such, Xenia now trades at what we think is near a trough multiple; said differently, we think we are paying an attractive price for the company and getting its Houston assets essentially for free. Further, the company has a strong track record of capital allocation, having sold some hotel assets for attractive multiples and using proceeds to repurchase stock at a discount to NAV. We believe that our downside is protected by low leverage, management's capital allocation track record, and the steep disconnect between intrinsic value and stock price.

- **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.
- We exited **Destination Maternity** after the company accepted a stock-for-stock buyout offer from Orchestra Prémaman S.A, a French-based retailer of children's and maternity apparel. In addition to Orchestra's stock being highly illiquid, we saw an increasing risk to Destination Maternity's declining fundamentals and an unclear capital allocation strategy from Orchestra Prémaman.

Disclosures

For institutional investors and professional clients only.

Performance data relates to the Brown Advisory U.S. Small-Cap Blend Fund. The performance is net of management fees and operating expenses. Past performance may not be a reliable guide to future performance and you may not get back the amount invested. 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 review is issued by Brown Advisory Limited, 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 Review. 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 Fund website.

Brown Advisory U.S. Small-Cap Blend Fund is a sub-fund of Brown Advisory Funds plc, an umbrella fund with segregated liability between sub-funds. The Fund is authorised in Ireland as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities Regulations, 2011 as may be amended, supplemented or consolidated from time to time) and a recognised collective investment scheme for the purposes of section 264 of the Financial Services and Markets Act 2000. The Fund is managed by Brown Advisory LLC.

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.

The benchmark is the Russell 2000® Index. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000® Index is a trademark/service mark of the Frank Russell Company. 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 and is completely reconstituted annually. The Russell 2000® Growth Index is a trademark/service mark of the Frank Russell Company. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure that new and growing equities are included and that the represented companies continue to reflect value characteristics. The Russell 2000® Value Index is a trademark/service mark of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company. An investor cannot invest directly into an index.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. Contribution to return is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return for the reporting period. The portfolio information provided is based on the Brown Advisory U.S. Small-Cap Blend Fund 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 and attribution 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.