U.S. Small-Cap Blend Fund

QUARTERLY UPDATE

Brown ADVISORY
Thoughtful Investing.

Fourth Quarter 2018

Review & Outlook

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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. For the quarter the Fund returned -18.5% vs. -20.9% for the Russell 2000 benchmark.

U.S. SMALL-CAP GROWTH STRATEGY

Our strategy 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 vs. 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, 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 2/3 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 dramatically. 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.

Masked under these positive numbers, however, is a tinge of disappointment. While we believe that we were positioned well for the end of astronomically high valuations and a return of volatility–which we have discussed at length in these pages–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! Once again, we are reminded of the sage words of our favorite philosopher, Mike Tyson, "…everyone has a plan until they are punched in the face..."

In sum, 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.

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

PERFORMANCE (%)

	RETURNS NET OF FEES*	RUSSELL 2000® INDEX
3 Mos.	-18.54	-20.20
1 YR	-9.40	-11.01
3 YR	6.18	7.36
ITD (8 Jul 2013)	6.96	6.87

*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.)	15.6x	13.5x
Earnings Growth 3-5 YR Estimate	14.9%	15.0%
Weighted Avg. Market Cap.	$3.5 B	$2.0 B
Weighted Median Market Cap.	$2.5 B	$1.8 B
PEG Ratio	1.0x	0.9x

TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Waste Connections, Inc.	2.6
Bright Horizons Family Solutions, Inc.	2.2
Albany International Corp. Class A	2.0
GCI Liberty, Inc. Class A	1.9
Nexstar Media Group, Inc. Class A	1.7
EchoStar Corporation Class A	1.6
Genpact Limited	1.6
Charles River Laboratories International, Inc.	1.6
Extended Stay America, Inc.	1.6
Mimecast Limited	1.5
TOTAL	**18.3**

Characteristics and holdings include cash and cash equivalents.

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In deploying capital, we are cognizant of the following potential risks. Leverage across the small-cap space remains quite elevated and close to historical highs. Thus, we have been paring back or capping the weighting of more highly levered businesses. Portfolio leverage remains quite low on an absolute and relative basis, but we will remain cautious, particularly when high yield spreads remain relatively tight given recent market and economic concerns. Valuation and quality also did not help much in protecting capital in 2018, but we believe that if recent volatility continues, these two attributes will be beneficial and we are acting accordingly.

Finally, in a market where cyclical sectors were hit tremendously hard, information technology had a banner year, producing positive returns in the growth space. We believe that this is due to investors largely being more concerned to date about U.S.-China trade relations than true economic weakness. However, recent economic data coming out of China, Europe and the U.S. bears monitoring as investors may start to look not only at tech's secular growth attributes, but its cyclicality as well.

The last risk worth noting is the rise of the machines. Clearly, trading in the U.S. market is more influenced than ever by index funds, ETFs and algorithms than at any period in our lives. We likely saw some influence of fund flows moving out of ETFs and automated de-risking in the fourth quarter, but for the full year of 2018, small-cap ETF fund flows were demonstrably positive. Individual stock dislocations, particularly in less liquid names, is certainly very possible should fund flows actually turn negative in 2019.

With all of the above, it is impossible to predict, but we will do our best to prepare.

Last year, we started a segment of this annual report to review companies that are emblematic of our process, yet lie outside the top contributors/detractors for the year. Our goal is to provide our clients with a better sense of how we think and reinforce our discipline of spending as much time on the companies outside of the highlights as those in them.

Zuora Inc. provides subscription businesses with a cloud platform for pricing, quoting, ordering, billing, payment and renewal tools. Fundamentally, it is a way to play a dramatic shift in consumption patterns to a pay-as-you-go model (e.g. Netflix). Furthermore, it is a potentially important piece in another secular shift, the digital transformation of the chief financial officer suite. Similar to salesforce automation (Salesforce.com) and marketing automation (Adobe), we believe that financial functions will evolve out of Excel and email to a more streamlined workflow.

We first encountered Zuora in 2014 when the company was private and identified it as an important player in the trends described above. In 2018, we had an opportunity to sit with them during their IPO roadshow. After a number of customer conversations as part of our due diligence process, it was clear that they possessed a strong value proposition for their software. We saw a long runway for customer growth in both its legacy base of software companies, as well as more traditional sectors such as media and entertainment. In addition to a sizeable addressable market opportunity, it was also apparent that there were multiple ways to expand with existing customers: customer growth in transaction volume and upsell/cross-sell of an expanding product portfolio.

Despite our favorable view of the company's long-term growth prospects, we spent a considerable amount of time debating valuation due to the likelihood that their business may not generate earnings for two to three years. Using long-term cash flow generation potential and absolute/relative recurring revenue multiples, we determined that a price range in the mid-teens was a fair price to pay given positive fundamentals.

The IPO priced at $14 per share and we participated in the deal. However, due to a relatively small deal size and the market's strong demand for software-as-a-service companies at the time, we were not able to achieve our targeted position size. Shortly after the IPO, the stock ran to what we felt was an unsustainable level. For perspective, our "purchase price" implied a 2019 enterprise value-to-sales multiple in the mid- to high-single digits. At its peak of roughly $35, the stock traded at nearly 20x revenue. Given our risk/reward focus, we resigned ourselves to holding only a relatively *de minimis* position for well over six months given the post-IPO price action. While we certainly did not know that the company would once again move back into our targeted range, we did feel that the probability was high enough to wait.

Zuora is an example of one of many businesses where we used the recent bout of market volatility to increase our position as the stock moved back into the $15-$20 "purchase price" range. Importantly, revenue estimates during our waiting period increased meaningfully. Today, the position size is in the range of 0.75-1.00%, which was our original target, and reflects the multi-year period before the company achieves non-GAAP profitability. We hope that Zuora is a business that will be in the portfolio for many years, representing our constant attempt to recycle capital from later-stage businesses into earlier-stage business to drive a healthy balance of both offensive and defensive positions in the portfolio.

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.

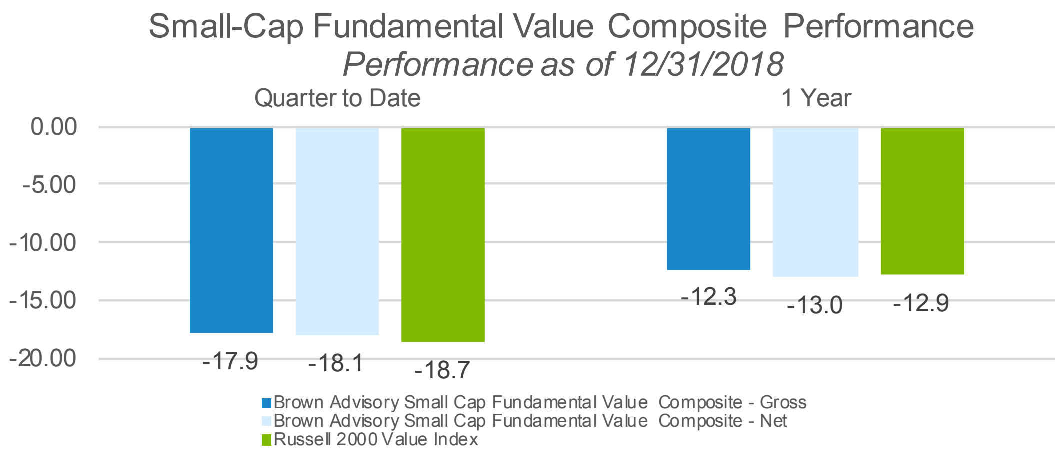
While we certainly bought risk selectively in the fourth quarter of 2018 (e.g. Chegg, 2U, Inc., Make My Trip) and it appears to already be showing up in the portfolio's upside capture, we remain focused on relative downside protection against illiquidity, leverage, and unappreciated cyclicality. As we 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 strategy 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. We see 2018 as a banner 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 strategy.

Please get in touch for an extended version of this commentary.

Small-cap shares were down materially during the fourth quarter of 2018. The Russell 2000® Value Index declined 18.7% during the quarter, which drove a 12.9% decline for the full year. After seeing a meaningful rise over the prior two years, 2018 marks the worst year for small-cap shares since 2008. Investors have been focused on a number of current issues in the market today. While the economy is not in a recession, incremental news has been negative and has been pointing to a marked slowdown in economic growth from levels seen over the last eight quarters. Management teams, particularly within the cyclical sector, expressed wariness of the risks from a rising cost environment driven by a combination of tariffs and a tight labor market. In many cases, current results were solid with limited weakness in certain end-markets, but general concern around 2019 and 2020 drove sentiment. Both the financial and utility sectors reacted meaningfully during the quarter to changes in current and anticipated interest rates. Small banks shares were impacted as the yield curve flattened, and the rise in the short end of the curve served to boost competition for deposits. Utilities, on the other hand, were the strongest performer for the quarter by nearly 1,600 basis points (and the only positive sector for the year), as investors became convinced that further rate increases were less likely. Volatility returned to the market, with the fourth quarter seeing 27 days with 1% moves (positive or negative). While this normally benefits value investors, the markets ironically saw low-valuation stocks perform materially worse than higher-valuation shares. Finally, the markets also saw high-yield spreads and absolute levels expand materially (energy was the primary contributor), which reinforced negative sentiment for small-cap shares.



Performance – Fourth Quarter

For the quarter, the Brown Advisory Small-Cap Fundamental Value strategy was down but compared to our benchmark, the strategy was slightly ahead. Small-cap shares were down meaningfully in December (over 12%) and October (almost 9%), while they were up modestly during November. The strategy's positive relative performance was generally concentrated during December. The strategy outperformed the Index during October and trailed during November. While several portfolio companies reported weak third-quarter results during November, which weighed on performance, the portfolio's defensive characteristics generally served to protect the portfolio, especially during December.

Communications services was one of the strongest contributors during the quarter due to the reaction to Nexstar's much anticipated acquisition of Tribune Media. While our energy and health care investments were down in the quarter, these sectors were the worst-performing sectors for the Index, thereby driving meaningful contribution to the strategy's relative performance. Industrials and utilities were the biggest detractors for the period. Within industrials, several of our investments with exposure to housing (Continental Building Products and Simpson Manufacturing) and to the energy sector (MRC Global) were down materially. In each case, reported results were solid, but investors' concerns about end-market weakness impacted the shares. Finally, as mentioned above, utilities posted the best performance among all the sectors for the quarter (and even ended the year with a small gain—the only sector that was positive). Our strategy's large underweight to utilities drove a meaningful portion of our underperformance.

We had several corporate actions that had both positive and negative impacts to our performance during the quarter. As mentioned above, Nexstar's $4.1 billion acquisition of Tribune Media was finally announced. Based on our estimates of the pro forma transaction impacts, Nexstar should generate over $18 per share of free cash flow (after divestitures; compared to the recent share price of $80), which should enable it to rapidly repay the increased leverage to complete the transaction.

Secondly, Denny's announced that it was accelerating its refranchising strategy and reducing the number of company-owned restaurants from 10% of its total to approximately 4%. Through a combination of increased franchise fees and share repurchases (using proceeds from restaurant sales), Denny's believes that the transaction will be accretive and should garner a higher multiple in the market. Not all transactions were value creating or well-received by the markets. One of the strategy's most sizable losses during the quarter came from our recent investment in Spectrum Brands, which was undergoing a significant corporate simplification and reorganization. Unfortunately, during November, it announced that it had to renegotiate the terms of its battery business sale to Energizer due to regulatory challenges. This, coupled with reported weakness in its consumer products division during the quarter, resulted in a sizable reduction in our expected value.

This was reflected in the share price. We have also been surprised at the tepid reaction the market has had to the spinoff of Riviera Resources from Roan Resources (formerly Linn Energy). Following the completion of the spinoff, both pieces of the company were down materially (even before crude prices started to drop during the quarter). During the quarter, Riviera used the weakness to announce and complete another accelerated share repurchase agreement.

Performance – 2018

Contrary to the quarter, the strategy's performance during the year was basically in line with the Index. While the strategy outperformed during the first and third quarters, it was not enough to offset the second quarter's underperformance.

Similar to the fourth quarter, utilities were the biggest source of strength in the market for the year and our second largest source of underperformance. As further rate increases seemed less likely (in connection with a slowing economy), investors rushed back into this sector during the fourth quarter. Real estate and consumer staples were the other large sources of weakness for the strategy for the year. Our consumer staples performance was driven by the weakness in Spectrum Brands, while real estate was negatively impacted by our investment in Colony. As discussed in earlier letters, Colony was forced to cut its dividend following its acquisition of American Capital. We sold our investment in Colony earlier in the year but still believe that there is meaningful upside in our Spectrum investment.

In contrast to the fourth quarter, industrials were a solid contributor for the year, led by McGrath RentCorp and Albany. Both of these companies continued to post solid results within the strong municipal and aerospace end markets. Continental Building Products was also a strong contributor. Note that during the fourth quarter, we sold our investment in Continental to take advantage of the valuation gap with its competitor, Eagle Materials. Another meaningful contributor for the year was consumer discretionary, which benefited from a number of our retail investments (DSW and Regis).

Portfolio Activity.

If there is a silver lining to the quarter, it would be the number of opportunities that the market volatility created. While the small-cap market was down just under 19%, there have been a number of companies that we have been tracking that were down well in excess of that. Activity level was high during the quarter with eight new investments, including three in the last week of the year. These investments were across a range of sectors, including two retailers, two financials, two industrials, one in information technology and one real estate investment trust (REIT). On average, these new investments' shares have been down by over 30% for the period prior to our investment. Valuations have also reached attractive levels, with the new investments being made at under 6x run-rate EBITDA (excluding the banks and REIT) on average.

While the fourth quarter for small-cap shares was turbulent, we have to acknowledge that small-caps have had a tremendous run since 2008 and since the fourth quarter of 2016. While we are starting to see many new investment opportunities, we also continue to see companies with challenged balance sheets and uncertain business models/prospects. Barely into the new year, we have already started to see market commentators call for a rebound and point to the potential for a rapid rise in small-cap shares. While we acknowledge the macro factors that both the bulls and the bears point to, our process will continue to enable us to approach the markets with caution and allow us to focus on opportunistic investments that we believe will generate attractive, risk-adjusted returns.

Sector Diversification

- Consumer discretionary increased in weight, although the majority of the allocation resides outside the traditional retail, apparel and restaurant landscape.
- Our industrial weighting was down due to our sale of **Continental Building Products** and general weakness in the industrials sector during the quarter.

SECTOR	U.S. SMALL-CAP BLEND FUND (%)	RUSSELL 2000® INDEX (%)	DIFFERENCE (%)	U.S. SMALL-CAP BLEND FUND (%)	
	Q4 '18	Q4 '18	Q4 '18	Q3 '18	Q4 '17
Communication Services	5.38	3.32	2.06	5.51	7.49
Consumer Discretionary	17.65	12.15	5.49	14.11	9.86
Consumer Staples	2.35	2.88	-0.53	3.10	1.80
Energy	2.53	3.52	-0.98	2.80	2.74
Financials	17.47	18.29	-0.82	16.59	16.22
Health Care	9.11	15.56	-6.44	9.04	8.26
Industrials	19.21	14.79	4.42	22.33	20.36
Information Technology	18.41	14.76	3.65	17.87	22.11
Materials	0.99	3.72	-2.73	0.51	2.78
Real Estate	2.74	7.19	-4.45	3.31	4.06
Utilities	0.42	3.83	-3.41	0.34	0.26
Cash	3.73	--	3.73	4.50	4.03

Sector diversification includes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- Relative performance by sector versus our benchmark was mixed; communication services, consumer discretionary, energy, health care and the materials sectors were the strongest performers, while utilities and consumer staples were the weakest.

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 (%)
Communication Services	5.46	-12.49	3.35	-18.76	0.02	0.36	0.38
Consumer Discretionary	15.72	-16.89	12.21	-20.25	0.03	0.56	0.59
Consumer Staples	2.86	-23.62	2.83	-13.34	0.02	-0.35	-0.32
Energy	2.84	-32.09	4.37	-41.37	0.38	0.36	0.75
Financials	17.62	-16.40	18.04	-16.61	-0.04	0.01	-0.03
Health Care	9.30	-24.33	15.83	-25.68	0.39	0.08	0.48
Industrials	20.39	-21.07	14.85	-21.24	-0.07	-0.02	-0.09
Information Technology	17.20	-18.60	13.93	-17.04	0.15	-0.27	-0.12
Materials	1.03	-24.92	3.91	-26.43	0.21	--	0.21
Real Estate	3.38	-14.16	7.11	-14.34	-0.16	-0.01	-0.16
Utilities	0.39	-3.23	3.56	-2.20	-0.53	-0.01	-0.54
Cash	3.80	0.59	--	--	0.76	--	0.76
Total	**100.00**	**-18.40**	**100.00**	**-20.29**	**1.16**	**0.72**	**1.89**

Sector attribution includes cash and cash equivalents.

Quarterly Contribution to Return

- **Denny's** stock was up during the quarter, as the company announced a new refranchising initiative, followed by an accelerated share repurchase program. Under this new plan, Denny's is expected to increase the percentage of its store base that is franchised to 95% to 97% (from approximately 90% currently) by selling between 90 to 125 company-operated restaurants to new and existing franchisees. This higher percentage of franchise stores will further insulate the company's cash flows from volatility associated with store-level operating expense inflation and supports modestly higher leverage. The company will use the sale proceeds along with the modest increase in leverage, which together we estimate will total over $200 million, to repurchase shares, in keeping with its long history of shareholder-friendly capital allocation.
- **ATN International** rose this quarter, as the company's international operations continued to improve following hurricane damage in the fall of 2017 and the subsequent network rebuild. Due to valuation, we exited our investment during the quarter.
- **TFS Financial** had a strong fourth quarter relative to the broader banking index, as bank investors became more concerned about the interest rate environment and increased recessionary concerns. TFS also increased its dividend by 47% just prior to the fourth quarter.
- **Chegg** reported strong subscriber growth in the quarter and solid 2019 guidance. The company is also releasing a new bundling offering in 2019 that should increase average revenue-per-user and reduce subscriber churn.
- **Essential Properties** was a top contributor in the quarter, as the stock generally held up well in a declining market. Essential Properties, a new investment, is a net lease REIT with an underleveraged balance sheet and an attractive yield of over 6% that should play a defensive role in the portfolio.
- **Catalent** 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.
- **Welbilt** was likely our most disappointing stock of 2018. While North American revenue growth was solid and consistent with our due diligence, the company's margins were negatively impacted by a collection of surprising issues. This result ran counter to the last several quarters, which were highlighted by inconsistent revenue growth, but strong margins. Shares felt additional pressure due to a recent management change and tariff fears.
- **Roan Resources** reported its first full quarter of results as an independent company following the separation of Riviera Resources from former parent Linn Energy. While fourth-quarter production growth and reported EBITDA multiples were slightly below expectations, the largest driver of the stock decline was due to the 38% fall in oil prices during the fourth quarter.
- **MRC Global** sold off during the fourth quarter with the rest of the energy space as oil prices fell 38%. While MRC's upstream segment (30% of revenues) will likely be affected by the fall in oil prices in 2019, the outlook for its midstream and downstream segments remains favorable. We think that FCF is set to accelerate in 2019, and the board initiated a new $150 million share repurchase program (over 10% of the current market capitalization) to take advantage of the recent stock weakness.
- Despite posting very strong fourth-quarter results and raising guidance for the second time in as many quarters, **Albany** shares sold off during the period with the rest of the industrial space. We continue to like the outlook for Albany, and the stock remains the largest position within the fund.

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
U.S. SMALL-CAP BLEND FUND TOP FIVE CONTRIBUTORS				
DENN	Denny's Corporation	0.82	10.12	0.07
ATNI	ATN International, Inc.	0.18	13.51	0.06
TFSL	TFS Financial Corporation	0.68	9.18	0.06
CHGG	Chegg, Inc.	0.42	7.98	0.05
EPRT	Essential Properties Realty Trust, Inc.	0.63	1.81	0.02
U.S. SMALL-CAP BLEND FUND BOTTOM FIVE CONTRIBUTORS				
CTLT	Catalent Inc	1.67	-31.55	-0.58
WBT	Welbilt Inc	1.04	-46.79	-0.56
ROAN	Roan Resources, Inc.	0.77	-53.05	-0.51
MRC	MRC Global Inc.	1.18	-34.84	-0.47
AIN	Albany International Corp. Class A	2.03	-21.23	-0.46

Contribution includes cash and cash equivalents.

Quarterly Portfolio Activity

- **Appfolio** sells software and services to real estate property managers. We like the company's attractive growth profile driven by adding additional customers and importantly their ability to increase monetization from its existing customers through offering services where others (tenants, for example) bear the cost.
- **Biohaven Pharmaceuticals** primarily focuses on developing therapies for neurological diseases that have a large market opportunity. Its lead drug, Rimegepant, is designed for patients who suffer from acute migraines and also has the potential to treat patients who suffer from chronic migraines. Thus far, the efficacy data and safety profile appear to make Rimegepant best-in-class as a small molecule therapy and remains on track to receive an FDA approval in late 2019.
- We received shares of **Cabot Microelectronics** as a result of the closure of its KMG Chemicals acquisition during the fourth quarter. The strategy had a previous position in KMG, and received cash and shares of CCMP as a result of the deal.
- **Chegg** is an online learning platform that rents, sells and buys textbooks and provides study aids for high school and college students. The company offers a number of products including online tutoring and step-by-step textbook solutions.
- **Dick's Sporting Goods** is an omni-channel retailer with 858 stores across the United States selling branded sports equipment, apparel, footwear and accessories. Over the past 18 months, the company faced a number of company-specific issues and overall industry headwinds, which resulted in negative comparable sales growth, compressed margins and declining multiples. We believe Dick's Sporting Goods is well-positioned to once again take profitable share in the more rationalized sporting goods industry. We see the stock as poised to re-rate higher as this occurs. The stock currently trades at 5x 2019 EBITDA, which compares well to both sporting goods retailers and big box retailers.
- **Eagle Materials Inc.** is a leading supplier of heavy construction materials, light building materials and materials used in oil and gas extraction. The company sells commodity products, and its relentless focus on being the low-cost provider in each of its markets has led to higher margins, returns and free cash flow versus its competitors over time. Eagle Material's stock came under significant pressure throughout the year, as a multitude of weather-related issues weighed on the company's cement segment results. We think that street expectations for the cement business have finally corrected to a more reasonable level, and the setup going forward looks favorable as the market continues to tighten. Eagle is also coming off a record amount of capex spend over a trailing four-quarter period, and we think free cash flow is set to materially improve during the second half of financial year 2019 and into financial year 2020. With low leverage on the balance sheet and few potential acquisition opportunities in the market today, we expect the majority of excess free cash flow to be returned to shareholders through share repurchases in the near term.
- **Essential Properties** is a net lease REIT that was founded in 2016 and went public in June 2018. The company's portfolio consists of retail and service-oriented properties that are well-positioned for the e-commerce era. In addition, the company's portfolio consists of properties which are generally middle market in size and tenant profile, allowing Essential Properties to provide attractive financing options otherwise unavailable to such tenants. The stock traded poorly at the time of the IPO due to a temporary spike in interest rates in the late summer of 2018, giving us an opportunity to own this attractive portfolio at a discount to intrinsic value and capture an upfront yield of over 6%. With an underleveraged balance sheet, we believe it has a nice runway to grow its portfolio and prove itself as a differentiated player in the net lease industry.

U.S. SMALL-CAP BLEND FUND PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
APPF	AppFolio Inc Class A	Information Technology
BHVN	Biohaven Pharmaceutical Holding Company Ltd.	Health Care
CCMP	Cabot Microelectronics Corporation	Information Technology
CHGG	Chegg, Inc.	Consumer Discretionary
DKS	Dick's Sporting Goods, Inc.	Consumer Discretionary
EXP	Eagle Materials Inc.	Materials
EPRT	Essential Properties Realty Trust, Inc.	Real Estate
HAIN	Hain Celestial Group, Inc.	Consumer Staples
IART	Integra LifeSciences Holdings Corporation	Health Care
LDL	Lydall, Inc.	Industrials
PGC	Peapack-Gladstone Financial Corporation	Financials
SGH	SMART Global Holdings, Inc.	Information Technology
TCF	TCF Financial Corporation	Financials
TTS	Tile Shop Holdings, Inc.	Consumer Discretionary
ZUO	Zuora, Inc. Class A	Information Technology
ZNGA	Zynga Inc. Class A	Communication Services
DELETIONS		**SECTOR**
ALRM	Alarm.com Holdings, Inc.	Information Technology
ATNI	ATN International, Inc.	Communication Services
CBPX	Continental Building Products, Inc.	Industrials
FCE.A	Forest City Realty Trust Inc Class A	Real Estate
RESI	Front Yard Residential Corp. Class B	Real Estate
KMG	KMG Chemicals, Inc.	Materials
MDSO	Medidata Solutions, Inc.	Health Care
PFPT	Proofpoint, Inc.	Information Technology
SNV	Synovus Financial Corp.	Financials
RARE	Ultragenyx Pharmaceutical, Inc.	Health Care

- We believe that **Hain Celestial Group** has a valuable portfolio of brands that can return to growth as a standalone company or as part of a larger food company. The turnaround plan - underway now for two years - is highly credible in our view and just now on the cusp of delivering the financial flexibility that the company needs to rebuild momentum. The CEO transition and persistently negative U.S. sales growth over recent months have resulted in a lack of earnings visibility and a severe stock drawdown. With the stock down over 70% from its highs and the turnaround on the cusp of gaining traction. The company's earnings report and analyst day in early February, along with the expected sale of Pure Protein, may be catalysts to reverse the earnings decline and highlight the value of the business.
- **Integra LifeSciences** is a diversified global medical device company that we have tracked for several years. Following the acquisition and successful integration of Codman Surgical, the company has the largest neurosurgery offering in the world. We believe that a tenured and capable management team can execute on its articulated long-range plan of 5-7% organic revenue growth and 200-500 bps of EBITDA margin expansion. In addition to new product introductions, Integra is poised to take advantage of competitive disruptions in the wound care market, as well as a more rationalized, higher-margin product suite.

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- **Lydall** designs and manufactures specialty engineered filtration media, industrial thermal insulating solutions and automotive thermal and acoustical barriers. The company has undergone a significant transformation over the last decade, divesting four non-core businesses and acquiring four companies with $400 million in annualized revenues in order to diversify away from its legacy auto business. The auto business has been hit especially hard over the last six quarters due to a combination of higher commodities (aluminum and oil) and operational issues stemming from a record number of product launches. In the third quarter of 2018, gross margins were the lowest in 28 quarters, and we think the worst is behind the company, as both oil and aluminum peaked earlier this year, and new product launches will slow materially in 2019. We think the setup for gross margin relief as the company gets into 2019 looks favorable. In addition to the gross margin issues, we think that the company's most recent acquisition of Interface Performance Materials is misunderstood by the market. The acquisition was structured as an asset deal, and Lydall will be able to take a tax deduction for the step-up in basis of the assets. While not immediately accretive to EPS due to the high amortization costs, the deal has the potential to add over $0.90 a share in free cash flow to Lydall next year that in our view the market is not fully appreciating. Lydall's stock is down over 50% in the fourth quarter of 2018 alone, and we believe that including the acquisition of Interface, investors are purchasing Lydall today at 5x EV/EBITDA and a 14% free cash flow yield.
- **Peapack-Gladstone** is a growing trust/private bank located in upper/ central New Jersey that has tripled its private banking deposits over the past four years and doubled the assets under management in its wealth management business. As an almost 100-year-old institution and given its geography outside New York City and away from Philadelphia, Peapack-Gladstone has an attractive franchise that was being underutilized until 2014 when a new management team began to reposition the bank to grow and improve its financial performance. While the bank trades at an attractive 1.2x total book value and 10x 2019 estimated earnings-per-share (EPS) on a sum-of the-parts basis, the bank's wealth management business effectively lowers the implied valuation of the private bank to 0.9x total book value. Given its size and scope, Peapack-Gladstone would also make an attractive acquisition candidate to either larger wealth management trust banks or regional players.
- **SMART Global** manufactures systems (primarily memory modules) for electronics customers. We like SMART's positioning in areas of the contract manufacturing space that have lower competition and less exposure to hardware price declines than peers. Despite significant growth over the last two years, we think SMART can continue to grow organically and maintain margins. Trading at 4x EBITDA, SMART's shares, we believe, are attractive at these levels.
- **TCF Financial** is a premium quality regional bank with a strong deposit franchise and improving credit quality that trades at an attractive multiple relative to peers. As deposit betas have picked up this year, we think TCF's granular, low-cost deposit base will help it consistently outperform its peer group in net interest margin. This should lead to earnings momentum that should let the stock outperform. The bank experienced elevated default rates in its indirect auto loans in recent years, but with this portfolio now in runoff, we think credit quality will steadily improve. As the bank's risk-weighted assets ratio is improving due to the declining exposure to auto, management has chosen to use the freed-up capital to accelerate share buybacks, which, along with a 2.8% dividend yield, provides us robust downside protection. We have only modeled negligible average earning assets growth in 2019 and 2020, so risk of growth disappointment is low, providing upside optionality to our estimate.
- **Tile Shop** operates a chain of 140 retail stores and an e-commerce site that sells over 4,500 manufactured and natural tile products used to remodel bathrooms, kitchens and more in the home. Tile Shop's shares are down materially after a difficult 18 months of financial performance and a perceived weakening of the housing market heading into 2019. We believe many of the company's issues were self-inflicted in 2017 and a new management team's 2018 initiatives are beginning to show through. The new initiatives should drive better-than-expected results over the next several quarters and lead to a potential re-rating of the company's depressed multiple. Tile Shop fits nicely within the small-cap value framework trading at 6x EV/EBITDA, a 5% free cash flow yield and a 4% dividend yield.
- We participated in the April 2018 IPO for **Zuora**, a subscription billings software company and an important player in the broader shift to subscription business models. We took advantage of market volatility to build the position in Q4.
- **Zynga** is a leading mobile gaming publisher. We are excited about the company's prospects over the next several years given the stability of their current portfolio, the sizable pipeline of upcoming game launches and their history of prudent capital allocation.
- We sold **Alarm.com** due to valuation and long-term business model concerns.
- We sold **ATN International** due to valuation, as the implied multiple of its U.S. wholesale wireless business had grown to greater than 10x.
- We eliminated our position in **Continental Building Products** to fund our new investment in Eagle Materials Inc. Despite having similar growth profiles and market shares within the U.S. wallboard industry, Eagle enjoys a vastly higher margin and free cash flow profile versus Continental. Eagle has historically traded at a 30% premium to Continental on an EV/EBITDA basis, but after prices diverged over the summer, Eagle fell to a 10% discount to Continental for the first time ever. We feel that Eagle's wallboard assets and cost position are superior to Continental's and therefore took advantage of the price discount.
- **Forest City** was eliminated because its acquisition by Brookfield closed.
- We eliminated our position in **Front Yard Residential** following slower-than-expected materialization of company funds from operations and adjusted funds from operations relative to our initial expectations.
- Our position in **KMG Chemicals** was eliminated, as the company's pending acquisition by Cabot Microelectronics for cash and stock closed during the quarter.
- We sold **Medidata** to fund other opportunities with a more attractive long-term growth profile.
- We decided to reduce exposure to the email security space, and eliminated **Proofpoint** due to our preference for Mimecast.
- Our **Synovus** position was sold ahead of the closing of the recently announced acquisition of FCB Financial Holdings. This was the first large-scale acquisition SNV has pursued since the financial crisis. The transaction concerned us for many reasons, so we decided to sell our investment.
- We maintain a conservative, data-driven approach in the biotechnology space and eliminated **Ultagenyx Pharmaceutical** to fund other ideas where we carried higher conviction, such as LOXO Oncology and Biohaven.

Disclosures

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