U.S. Sustainable Growth Fund

2018 Year in Review

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For the calendar year, the Brown Advisory U.S. Sustainable Growth Fund[1] returned 4.88% versus -1.89% for the Russell 1000 Growth Net Index.

The broader equity markets performed quite poorly towards the end of 2018. The global economy became under pressure in part due to trade tensions, falling commodity prices and slower Chinese economic growth, to name a few of the myriad of worries being priced into the market. While the U.S. economy appears to be in good shape for now, many investors foresee a recession occurring in the next few years, and valuation multiples have corrected meaningfully to reflect this view.

While the macro economic outlook remains fluid, our focus is unchanged. We seek to identify fundamentally superior companies that are using sustainable strategies to drive strong financial performance. As valuations become more attractive, we focus on "upgrading" the portfolio by redeploying capital toward the long-term secular winners that, up until this time, have been overly expensive, in our view. Given the recent pullback, we have started to find valuations more compelling and our turnover has increased as a result. Given our ownership period is typically many years, we will inevitably run into periods of slower end market growth during our holding period. When faced with these situations, our approach is to understand if our investment thesis is still intact despite the end market weakness. If the answer is yes, we will typically add to the position. During last year, we followed this strategy and added to many of our names on pullbacks. It is worth noting that as a rule, we look for consistent, stable growth companies that have a history of delivering solid growth over a market cycle. As a result, we tend to avoid the fastest-growing names in the market that may disproportionately suffer in a slower macro environment. This discipline has served us well in past periods of economic stress, and the end of 2018 was no exception.

We had broad-based outperformance, outperforming in six of the eight economic sectors in which we participated in 2018. The Fund particularly benefitted from strong stock selection in information technology, materials and health care. Over the past few years, we have found an increasing number of attractive companies within health care that meet our investment criteria. As a result, our weighting within the sector has increased dramatically. We have primarily funded these purchases by redeploying capital from industrials. We seek to add value primarily through stock selection given we build our portfolio from the bottom up and do not take a top down view across any sector.

Over the year, three of the top five stocks that contributed to performance were information technology companies: **Adobe Inc.** (+29.1%), **Red Hat, Inc.** (+44.6%) and **Microsoft Corporation** (+20.8%). **Amazon.com, Inc.** (+28.4%) and **Edwards Lifesciences Corporation** (+35.9%) were also in the top contributors for 2018. **Adobe** has become a "one-stop shop" for digital marketing and a leader in the industry. During the year, Adobe acquired Marketo to expand its capability within business-to-business marketing. The company continues to post strong results across the board—revenue growth, margin expansion and free cash flow generation. During the year, we took advantage of the stock's strength by trimming our relatively large position, but it still remains a core holding. IBM announced its intention to acquire **Red Hat** at the end of October for slightly more than a 60% premium to the previous day's closing price. IBM seeks to leverage Red Hat's strength in open-source operating software and its leadership position in the hybrid cloud. After the announcement, we eliminated our position and redeployed the capital into other names. **Microsoft's** public cloud business (Azure) and its Microsoft 365 franchise performed well all year, driving strong revenue growth. The company also performed well in its traditional server and PC businesses. Its operating costs were held in check and the company posted impressive operating margin expansion. **Amazon's** e-commerce and public cloud businesses (Amazon Web Services) performed well in 2018. During the year, Amazon announced a price increase for its Prime members, illustrating the loyalty of its membership base. In the third quarter, it positively surprised investors by posting stronger operating margins than expected, which we believe is the result of the company's success growing higher margin offerings, such as advertising. After trimming Amazon on strength for most of the year, we took advantage of the stock's weakness in the fourth quarter and added to our position. **Edwards Lifesciences** posted strong revenue from its industry-leading transcatheter aortic

[1]Brown Advisory U.S. Sustainable Growth Fund C USD share class, net of fees.

valve replacement (TAVR) business throughout the year. Investors also bid up the shares in anticipation of positive results from an impending study that should expand the market opportunity for TAVR (the results should be released in the first quarter of 2019).

Partially offsetting the impressive results from the top contributors, were disappointing performances from investments such as **Healthcare Services Group, Inc.** (-28.6%) and **Marvell Technology Group Ltd.** (-29.7%). **Healthcare Services** took an unusual receivable write-down during the second quarter, reflecting the dire condition of its end market. While the company's services can save customers money regardless of market conditions, the challenged financial conditions of skilled nursing facilities render the company's cash flows unreliable at this time. We exited the position in the second quarter. **Marvell Technology** is a leading semiconductor provider of high-performance products in storage, networking and connectivity. It offered weak guidance for its storage business in the fourth quarter due to poor industry demand. We believe the slowdown will be temporary, and investors are overlooking the strength in the company's networking business. Indeed, Marvell's improved positioning as a result of the Cavium acquisition should expand its addressable market and open up new avenues for growth.

We added some new names to the Fund over the year which included **Aspen Technology, Inc.**, **Autodesk, Inc.**, **Home Depot, Inc.**, **Illumina, Inc.** and **Marvell Technology**. **Aspen Technology** is a provider of process optimization and asset performance management software to the process industries. The company aims to help its customers make their plants and supply chains more efficient, increase their production capacity, and save them billions of dollars over time.We believe that Aspen Technologies is poised to experience meaningful revenue growth as it expands its mission-critical asset optimization offerings among the industries it serves. **Autodesk** designs and distributes software applications for the architecture, engineering and construction industries. The company's Building Information Modelling (BIM) software helps create sustainable buildings and reduce waste in the construction process which is Autodesk's sustainable business advantage. **Home Depot** is a leading retailer in the home improvement category. Over the past twenty years, the management team has built, in our opinion, a world-class supply chain with the goal of increasing the velocity and efficiency of product delivery. This effort has resulted in thousands of reduced loads and avoided freight miles. Home Depot has also grown its assortment of environmentally preferred products which now represent 10% of overall sales. **Illumina** is a leading developer of life science tools and integrated systems for the analysis of genetic variation and function. It's sustainable business advantage is its ability to drive the efficiency and productivity of diagnostics and therapeutics within the health system.

New positions were funded by re-allocating capital from the elimination of a few names such as **Healthcare Services Group**, **Middleby Corporation**, **Starbucks Corporation** and **Westinghouse Air Brake Technologies**. We also eliminated our small positions in **Alphabet Inc. Class C** but retained ownership in the Class A shares. We purchased shares of **Delphi Automotive** into their spin off of **Aptiv,** then subsequently sold our small position in Delphi. Finally, **Marvell Technology** agreed to acquire **Cavium, Inc.** and we elected to swap our position in Cavium into Marvell before the deal officially closed.

Brown Advisory's U.S. Sustainable Growth Fund seeks companies with outstanding business models and sustainability drivers that directly benefit financial performance by specifically driving revenue growth, cost improvements and enhanced franchise value. The strategy was launched in 2009 so we are now pleased to be able to offer it to investors as a UCITS fund which launched in 2017. Our process targets attractive performance combined with sustainable investing, and our track record proves you can have both.

Past performance is not a guarantee of future performance and you may not get back the amount invested.

Performance data above relates to the Brown Advisory U.S. Sustainable Growth 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. 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 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.

The Brown Advisory U.S. Sustainable Growth 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. Brown Advisory is the marketing name for Brown Advisory LLC, Brown Investment Advisory & Trust Company, Brown Advisory Securities LLC, Brown Advisory Ltd., Brown Advisory Trust Company of Delaware LLC and Brown Advisory Investment Solutions Group.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. It is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 1000® Growth index and Russell® are trademarks/service marks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.