

# U.S. All-Cap Socially Responsible

## QUARTERLY STRATEGY UPDATE

Second Quarter 2019

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### COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 3000® GROWTH INDEX
1 MO.	7.50	7.44	7.02
3 MO.	6.51	6.33	4.10
ITD (8/31/2018)	4.37	3.81	1.90

The composite performance shown above reflects the Brown Advisory U.S. All-Cap Socially Responsible Equity Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a division of Brown Advisory LLC, and Brown Advisory Institutional is a GIPS compliant firm. Please see the end of this for a GIPS-compliant presentation.

## Review & Outlook

The Brown Advisory All-Cap SRI portfolio leverages the power of our proprietary fundamental and ESG research to pursue strong returns that align with our investors' values. The twin focuses of our portfolio allocation approach are to exclude companies that have controversial business involvement and then attempt to isolate stock selection as a key driver of performance relative to the market. We accomplish this by combining fundamental judgment with objective portfolio analysis in a thoughtful and efficient portfolio construction process. The result is a portfolio that seeks to drive outperformance relative to the benchmark and doing so within the confines of a socially responsible investment universe.

Equity markets continued to expand in the second quarter, although not at the double-digit pace we saw in the first quarter. While still positive overall, one more salient aspect of the second quarter was increased volatility. The market's mood fluctuated up and down on U.S.-China trade negotiations, slowing global production and sentiment indicators, antitrust concerns for large technology companies, and changing expectations on Federal Reserve behavior.

During the first quarter, the All-Cap SRI portfolio outperformed its benchmark, the Russell 3000® Index. The positive result relative to our benchmark was driven almost entirely by strong stock selection, principally in the health care and industrial sectors.

Our process, as outlined above, looks to minimize sector and factor variation against the market while maximizing our idiosyncratic upside opportunities. As a result, we would expect stock picking to be the dominant driver of our relative performance against the market, as it was again this quarter. While minor sector or factor bets may exist in the portfolio from time to time, we do not expect that they will have a meaningful impact on performance. The one exception is that our SRI negative screening process creates a tendency to be underweight to the energy sector. That underweight was a positive contributor to performance over the last three months, as both crude oil and natural gas prices softened in the quarter. Outside of energy, no sector allocation meaningfully influenced our relative performance.

Looking at our individual investments, we saw strong performance from our insurance companies, our laboratory and animal health-related investments, and our construction-related U.S. industrials. Disney was the single largest positive contributor, driven by the launch of its direct-to-consumer platform (Disney Plus) and the strong performance of its Marvel platform at the box office. Microsoft, one of our largest positions, was also a notable outperformer, driven by robust growth from its cloud-oriented platforms, continued solid performance from its legacy platforms and efficiency gains that drove positive operating leverage off that growth.

That performance was offset to some degree by Chinese consumer-focused companies (Alibaba and Ctrip), sentiments around which have clearly been impacted by the U.S.-China trade war, and our biotechnology investments. Alphabet, the parent company to Google and one of our largest positions, was the largest single detractor from performance. Regulatory fears rose given the company's dominant position in internet search and as the U.S. Department of Justice prepares to open an investigation into Google's compliance with antitrust laws. We maintained our position in Alphabet given the difficulty we foresee in convincing judges that Google has undermined competition combined with the low likelihood that the company would be broken up.

In conclusion, the portfolio performed as expected for the quarter, with outperformance against our benchmark driven largely by stock selection and limited impact from relative factor or sector exposures. We are closely watching the markets and the factors impacting recent volatility, but by focusing on our process and staying disciplined with our portfolio allocation, we have confidence in our ability to continue delivering outperformance for our investors.

### REP. ACCOUNT CHARACTERISTICS

	U.S. ALL-CAP SOCIALY RESPONSIBLE REP. ACCT.	RUSSELL 3000® GROWTH INDEX
Wtd. Avg. Market Cap.	\$180.2B	\$203.8B
P/E Ratio (FY2 Est.)	18.6x	16.2x
Active Share	82.3	--
Dividend Yield	1.25	1.81

### REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corporation	4.3
Zoetis, Inc. Class A	3.6
Alphabet Inc. Class A	3.5
Visa Inc. Class A	3.2
Apple Inc.	3.0
American Tower Corporation	3.0
Alibaba Group Holding Ltd. Sponsored ADR	3.0
Linde plc	2.8
Home Depot, Inc.	2.8
Cincinnati Financial Corp	2.8
<b>TOTAL</b>	<b>32.0</b>

Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

## Sector Diversification

- Our portfolio selection process aims to generate consistency and low tracking error to the Russell 3000® Index, thus isolating outperformance through our team's fundamental, bottom-up stock selection process. We look to minimize sector and factor variation against the market, while maximizing our idiosyncratic upside opportunities. As a result, we do not expect meaningful divergence between sector weights in the portfolio and those in the benchmark.
- That said, the SRI nature of this portfolio gives it a natural tilt away from hydrocarbon-producing and -consuming companies, typically in the energy and utilities sectors. Offsetting those underweights (5% and 3%, respectively) are matching overweights in sectors with similar risk and macro factor exposures: industrials and materials (offsetting energy) and real estate (offsetting utilities).

SECTOR	U.S. ALL-CAP SOCIOALLY RESPONSIBLE REP. ACCOUNT (%)	RUSSELL 3000® GROWTH INDEX (%)	DIFFERENCE (%)	U.S. ALL-CAP SOCIOALLY RESPONSIBLE REP. ACCOUNT (%)
	Q2 '19	Q2 '19	Q2 '19	Q1 '19
Communication Services	6.79	9.24	-2.45	6.97
Consumer Discretionary	11.96	10.43	1.54	12.52
Consumer Staples	3.45	6.43	-2.98	3.61
Energy	--	4.70	-4.70	--
Financials	13.70	13.50	0.19	13.27
Health Care	13.49	14.05	-0.56	13.42
Industrials	15.00	10.15	4.85	13.72
Information Technology	21.31	21.28	0.03	21.10
Materials	5.39	2.96	2.43	5.10
Real Estate	6.49	4.01	2.48	7.21
Utilities	--	3.25	-3.25	--
Cash	2.41	--	2.41	3.09

Sectors include cash & cash equivalents.

## Quarterly Attribution Detail by Sector

- The majority of the portfolio's outperformance relative to the Russell 3000® Index was driven by stock selection, particularly in the health care, industrials, technology, materials and financials sectors. Our stock picking was complemented in the quarter by the strategy's natural underweight toward the energy sector, which also contributed positively to our relative performance.
- Within health care, our performance was largely driven by our animal health-exposed companies (Zoetis and Idexx Labs), which more than offset underperformance from our biotechnology investments. Within industrials, positive performance from our aerospace (Woodward) and construction-related (United Rentals and Allegion) investments more than offset a drag from J.B. Hunt (a U.S.-focused transportation company).

SECTOR	U.S. ALL-CAP SOCIOALLY RESPONSIBLE REP. ACCOUNT		RUSSELL 3000® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	7.11	3.67	9.25	4.35	--	-0.03	-0.03
Consumer Discretionary	12.12	1.98	10.46	4.55	0.01	-0.31	-0.30
Consumer Staples	3.60	1.84	6.50	3.29	0.04	-0.07	-0.03
Energy	--	--	4.79	-3.90	0.40	--	0.40
Financials	13.63	10.38	13.60	7.63	--	0.36	0.36
Health Care	13.09	7.03	13.81	1.45	0.03	0.74	0.77
Industrials	14.17	9.02	10.15	4.66	0.03	0.58	0.61
Information Technology	21.28	7.87	21.29	5.67	0.01	0.45	0.45
Materials	5.21	12.85	2.95	4.71	0.03	0.39	0.42
Real Estate	6.86	2.17	4.00	1.72	-0.06	0.03	-0.03
Utilities	--	--	3.20	3.58	0.02	--	0.02
Cash	2.93	0.58	--	--	-0.10	--	-0.10
<b>Total</b>	<b>100.00</b>	<b>6.64</b>	<b>100.00</b>	<b>4.10</b>	<b>0.42</b>	<b>2.12</b>	<b>2.54</b>

Attribution includes cash & cash equivalents.

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## Quarterly Contribution to Return

- **Disney's** performance can be attributed to the much anticipated announcement of its new direct-to-consumer service, Disney Plus, the pricing and disclosure around which positively surprised investors. Another factor that contributed to the stock's performance was strong box office records set by the recent Avengers movie franchise.
- **Microsoft** has continued to see robust growth in its cloud-oriented Office 365 and Azure businesses, while outperforming expectations for its "legacy" Windows PC and on-premise server and tools businesses. Efficiency gains in data center operations drove gross margin expansion across each of Microsoft's cloud services, which continues to aid operating leverage of the business.
- **Cincinnati Financial**, a property and casualty insurer, benefited from interest rates declines, positively compounding the effects of market share gains.
- **Zoetis** stock gained as the company continues to outperform the veterinary industry's growth rate, largely due to its innovative product portfolio for companion pets. The company announced recently that it expects to launch a key product, Simparica trio, in the first quarter of 2020 versus a prior timeline of sometime in 2020.
- Increased visibility on integration savings (on the recently closed combination of Praxair and Linde), along with a rising backlog, strong pricing and solid volume trends, drove outperformance of **Linde shares**.
- **Alphabet** declined during the second quarter on regulatory fears regarding the company's dominant position in internet search.
- Despite underlying strong results, **Alibaba's** stock performance was dominated by concerns over the U.S.-China trade dispute and the resulting impact on Chinese domestic sentiment.
- **Agios'** launch of Tibsovo (a cancer therapy) was less successful than expected. The company also faces increased competition in Tibsovo's target market, acute myeloid leukemia treatment.
- **Lowe's'** growth (same-store sales) was strong in the quarter, outperforming its closest peer (Home Depot). Financial results, however, were below expectations, as profitability and pricing disappointed both the company and investors.
- U.S. freight transportation saw negative growth in the second quarter, dragged down by slowing commercial purchases, an increased effect from the U.S.-China trade war. This negatively impacted **J.B. Hunt's** core intermodal and trucking businesses, driving down growth and expectations.

U.S. ALL-CAP SOCIALLY RESPONSIBLE REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
DIS	Walt Disney Company	2.49	25.77	0.56
MSFT	Microsoft Corporation	4.23	14.00	0.56
CINF	Cincinnati Financial Corporation	2.63	21.34	0.52
ZTS	Zoetis, Inc. Class A	3.45	12.92	0.45
LIN	Linde plc	2.73	14.69	0.40
U.S. ALL-CAP SOCIALLY RESPONSIBLE REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
GOOGL	Alphabet Inc. Class A	3.81	-7.99	-0.33
BABA	Alibaba Group Holding Ltd. Sponsored ADR	3.15	-7.13	-0.25
AGIO	Agios Pharmaceuticals, Inc.	0.47	-26.04	-0.16
LOW	Lowe's Companies, Inc.	1.59	-7.43	-0.12
JBHT	J.B. Hunt Transport Services, Inc.	1.12	-9.51	-0.12

## Portfolio Activity

U.S. ALL-CAP SOCIALLY RESPONSIBLE REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		GICS SECTOR
DLX	Deluxe Corporation	Industrials
DELETIONS		GICS SECTOR
PCH	PotlatchDeltic Corporation	Real Estate

## U.S. All-Cap Socially Responsible Equity Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Assets (\$USD Millions)	GIPS Firm Assets (\$USD Millions)
2018*	-16.0	-16.2	-14.2	N/A	N/A	Five or fewer	N/A	13

\*Return is for period 9/1/2018 through 12/31/2018.

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2018. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

1. \*For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The U.S. All Cap SRI Composite is composed of discretionary portfolios which invest primarily in the common stocks of U.S. small, medium, and large market capitalization companies. The strategy seeks to produce competitive risk-adjusted returns through a concentrated portfolio of high conviction names, which reflect both attractive fundamental characteristics and compelling ESG profiles. It is constructed using a combination of fundamental research and negative screens, and aims to maintain a low tracking error to the Russell 3000® Index.
3. The Composite creation date is 10/23/2018. The Composite inception date is 8/31/2018.
4. The benchmark is the Russell 3000® Index. The Russell 3000® Index is composed of 3000 large U.S. companies, as determined by market capitalization. This portfolio of securities represents approximately 98% of the investable U.S. equity market. The Russell 3000® Index is comprised of stocks within the Russell 1000® and the Russell 2000® Indices. Benchmark returns are not covered by the report of the independent verifiers. The Russell 3000® Index and Russell® are trademarks/service marks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
5. Composite dispersion is an equal-weighted standard deviation of portfolio returns calculated for the accounts in the composite for the entire calendar year period. The composite dispersion is not currently presented because there is not five or more accounts in the composite for the entirety of the reported periods.
6. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. The fee schedule is as follows: 0.40% on all assets with a minimum account size of \$250,000. Actual fees paid by accounts in the composite may differ from the current fee schedule.
7. The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented because 36 monthly returns for the composite were not available (N/A).
8. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
10. Past performance is not indicative of future results.
11. This piece is provided for informational purposes only and should not be construed as a research report, 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, including any mutual fund managed by Brown Advisory.

## Disclosures

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

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. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

Composite performance is based on the Brown Advisory U.S. All-Cap SRI Equity Composite and was obtained through FactSet®. All information and returns shown are as of 12/31/2018 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet. This information is based on a representative Large-Cap Sustainable Growth account and is provided as supplemental information. Account characteristics exclude cash and cash equivalents; top 10 holdings list includes cash and cash equivalents. FactSet® is a registered trademark of FactSet Research Systems, Inc.

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 sector attribution excludes cash and cash equivalents. Total portfolio return figures provided reflect the sum of the returns of the equity holdings in the representative account portfolio due to price movements and dividend payments or other sources of income, and exclude cash. Performance figures may vary from actual portfolio performance, as calculations are based on end-of-day security prices and do not incorporate the actual cost basis or sale price of individual securities. 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

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. **Market Capitalization** refers to the aggregate value of a company's publicly traded stock. **Weighted Average Market Cap** refers to 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). 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. **Price-to-Earnings (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. **Dividend Yield** is the ratio of a stock's projected annual dividend payment per share for the fiscal year currently in progress, divided by the stock's price.

**Active Share** is a measure of the stock holdings in a portfolio that differ from the stated benchmark index. 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. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period. **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. Totals may not equal due to rounding. **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.