Flexible Equity

QUARTERLY STRATEGY UPDATE

First Quarter 2019

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P® 500 INDEX
3 MOS.	14.56	14.51	13.65
1 YR.	10.20	9.80	9.50
3 YR.	15.67	15.22	13.51
5 YR.	11.08	10.66	10.91
10 YR.	17.32	16.80	15.92
25 YR.	11.63	10.94	9.80
ITD (12/31/2984)	13.39	12.66	11.18

The composite performance shown above reflects the Brown Advisory Institutional Flexible 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.

REP. ACCOUNT CHARACTERISTICS

	FLEXIBLE EQUITY REP. ACCT.	S&P 500 INDEX
Wtd. Avg. Market Cap.	$268.0B	$230.7B
Weighted Median Market Cap.	$166.5B	$118.1B
P/E Ratio (FY2 Est.)	15.4x	15.5x
Price/Book Value	3.3x	3.2x
Earnings Growth (3-5 Yr. Est.)	14.5%	11.4%
Return on Equity (ROE)	24.0%	22.6%
Portfolio Turnover (3-Yr. Average)	12.7%	--
Active Share	71.9%	--

SECURITY	% PORTFOLIO
Visa, Inc.	6.5
Mastercard, Inc.	5.5
Alphabet. Inc. (Class A & C)*	4.9
Berkshire Hathaway, Inc. Cl B	4.2
Microsoft Corp.	4.0
Lowe's Companies, Inc.	3.7
Edwards Lifesciences Corp.	3.6
Facebook, Inc.	3.6
Apple, Inc.	3.3
CarMax, Inc.	3.2
TOTAL	**42.5**

*Alphabet Inc. represents a 2.1% holding position in class A and 2.8% in class C shares of the stock.

R. HUTCHINGS VERNON, CFA
Portfolio Manager

MANEESH BAJAJ, CFA
Portfolio Manager

Review & Outlook

The U.S. stock market and Flexible Equity portfolios rose sharply in the first quarter of 2019, recovering from the prior quarter's sharp decline. The Flexible Equity strategy outperformed its benchmark, the S&P 500® Index, which returned 13.7% in the first quarter.

The catalyst for the equity market reversing the dour mood of late 2018 was a signal from the Federal Reserve that it was no longer as set on increasing interest rates. This caused bonds to rally, and equities followed. It was hard not to like stocks in the first quarter, with prices and valuations returning to their high and interest rates low and now falling. Trade talks also appeared to be making some progress, and earnings reports from companies generally met expectations.

We continue to view equities as more attractive than bonds. With interest on U.S. Treasuries capitalized at 2.5%, the equivalent of a 40x price-to-earnings ratio (P/E), and stocks capitalized at 6.0% with P/Es of 16.5x on forward year earnings, the advantage of stocks is strong, in our view. With this spread in favor of stocks, one would have to either be very negative on the future of sustainable earnings of stocks or, given stocks' longer duration and greater sensitivity to increases in interest rates, very negative on the outlook for inflation and thus interest rates. Both of these circumstances are possible over time and indeed played some role in the sell-off late last year, but presently seem like distant concerns again.

The U.S. national college basketball tournament is in full swing at the moment. This is one of the best sporting events in America if you have a team still in it. Sixty-four teams compete in a single elimination tournament to see who will be the champion. Fans and nonfans alike also compete in bracket pools to see who can pick the winners as the tournament proceeds. There are favorites and underdogs and always some upsets. No one has yet picked a perfect bracket with 63 correct choices despite millions trying in national pools over the years. However, if you pick enough correctly, you can win your office pool, wagering $5 or $10 to win all or a piece of a $100 to $300 pool. Watching the teams compete and playing the brackets is an amusing pastime for the month of March and early April.

There are similarities between basketball brackets and investing. Anyone can play, players have their individual favorites and methods of picking, and it is the cumulative score that matters rather than each individual pick—you can miss some picks as long as you do not miss the eventual champion. The key differences are the odds and the ability to change your picks. The basketball brackets are played straight up with no point spreads to even the picks, so picking the favorites is a good strategy. But you are stuck with your picks once the games begin, even if your favorite is upset.

The odds in the investment game are expressed through differing valuations. Stocks of businesses with higher expectations receive higher valuations in the stock market, thus evening the odds relative to the lower expectation and lower valuation stocks as to which may return more to an investor. For example, a stock with a 40x P/E incorporates an expectation of faster or longer growth in earnings than a stock with a 20x P/E or a stock with a 10x P/E. In the long run, the stock that returns the most depends on how businesses perform <u>relative to these embedded expectations</u>, not just on how the businesses perform. A stock that is priced and expected to grow at 10% over time but delivers 15% will tend to outperform one that is priced and expected to grow 25% but delivers only 20%. Investors, changing their picks at will, bid the prices up or down as they revise their expectations. Expectations do not always align with results, which is one of the things that makes investing and office pools so interesting. This year, just one of the top four, and two of the top eight seeds, have made it to the Final Four of the basketball tournament. The winner, the University of Virginia, won its final three games despite trailing with seconds to go in each game. Amazing things happen in sports and also in markets from time to time.

The Flexible Equity team searches for investment bargains among long-term, attractive businesses with shareholder-oriented managers—those with productive assets and productive managers. These businesses should have or should develop competitive advantages that result in good business economics, managers who allocate capital well, capacity to adjust to changes in the world and the ability to grow business value over time. Bargains in these types of stocks can arise for various reasons but are often due to short-term investor perceptions, temporary business challenges that will improve, company or industry changes for the better, or as-yet-unrecognized potential for long-term growth and development. Despite the occasional investment that may go awry and stretches when the general stock market is unrewarding, we are optimistic about the long-term outlook for equities of good businesses purchased at reasonable prices and our ability to find them.

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

Sector Diversification

- We base our investment approach on individual company selection and incorporate a reasonable balance of sector exposures as part of risk management. Companies in the same economic sectors can vary as greatly in their business economics and profiles as companies in completely different sectors.
- Our consumer discretionary weighting increased with strong returns from several holdings and our additions to **Booking Holdings** and **Alibaba**.
- Both of the consumer staples holdings, **Conagra Brands** and **Nomad Foods**, appreciated over 20% in the quarter, which increased our sector weighting. We also added to Nomad Foods.
- Our financials weighting decreased due to the elimination of **Altaba**. Altaba is a financial holding company and its principal asset is stock in **Alibaba**. We sold Altaba in the first quarter to purchase Alibaba, so the financial sector weighting decreased and consumer discretionary sector increased. The underlying economic exposure did not change at all.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	FLEXIBLE EQUITY REP. ACCOUNT (%)	
	Q1 '19	Q1 '19	Q1 '19	Q4 '18	Q1 '18
Communication Services	10.04	10.11	-0.07	10.07	9.46
Consumer Discretionary	14.71	10.15	4.56	13.30	13.92
Consumer Staples	3.36	7.33	-3.97	2.83	3.98
Energy	4.85	5.43	-0.58	4.63	4.79
Financials	20.84	12.69	8.15	22.78	25.32
Health Care	9.37	14.57	-5.21	9.77	8.87
Industrials	6.20	9.48	-3.28	6.28	7.37
Information Technology	26.67	21.19	5.47	26.24	23.95
Materials	1.36	2.64	-1.28	1.58	--
Real Estate	2.61	3.09	-0.48	2.51	2.35
Utilities	--	3.33	-3.33	--	--

Quarterly Attribution Detail by Sector

- Attribution is a tool that calculates the effect of sector allocation and stock selection relative to market and sector benchmarks of performance. This tool does not reflect how we manage investments, and we believe it has significant limitations, but it is frequently requested, so we share it for that reason.
- The portfolio outperformed the S&P 500 Index which increased 13.7% on a total return basis.
- Health care, consumer staples and information technology contributed the most to the portfolio's return as compared to the S&P 500 Index. Health care and consumer staples had higher returns but lower weightings than the Index. Information technology had a slightly greater return than the Index and a larger weighting.
- Relative to the Index, financials and industrials were the biggest detractors despite their positive returns. The portfolio's financials holdings underperformed the Index due to the portfolio's higher weighting and the lower return of our holdings. Industrials underperformed due to its lower weighting in the portfolio relative to the Index and its lower return.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT		S&P 500 INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	10.17	15.79	10.21	14.09	--	0.16	0.17
Consumer Discretionary	14.24	15.52	10.02	15.76	0.08	-0.06	0.01
Consumer Staples	2.89	25.12	7.22	12.01	0.10	0.35	0.45
Energy	4.97	22.60	5.46	16.45	-0.02	0.29	0.27
Financials	22.35	6.83	13.30	8.55	-0.39	-0.32	-0.71
Health Care	9.51	11.58	14.96	6.58	0.39	0.45	0.84
Industrials	6.26	13.26	9.51	17.20	-0.10	-0.23	-0.33
Information Technology	25.62	20.36	20.37	19.86	0.27	0.10	0.37
Materials	1.47	0.37	2.68	10.29	0.04	-0.14	-0.10
Real Estate	2.50	21.39	3.01	17.54	-0.02	0.08	0.07
Utilities	--	--	3.26	12.23	0.06	--	0.06
Total	**100.00**	**14.82**	**100.00**	**13.71**	**0.41**	**0.70**	**1.11**

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Quarterly Contribution to Return

- The top five contributors to return all had strong increases in value and returns, greater than the S&P 500 Index.
- **Mastercard** and **Visa**, the two biggest holdings in the portfolio, were the portfolio's largest contributors. Payment volume growth remains robust, and both companies have benefited from the secular shift away from cash. Reported profits from both the companies were ahead of expectations.
- **Facebook**, a detractor to results in the prior quarter, rebounded during the first quarter. The company's fourth-quarter results for revenues (up 30%), operating profits and earnings per share exceeded investors' expectations. Expectations had been lowered due to the privacy controversies surrounding Facebook. Despite the controversy, neither users nor advertisers appear to be leaving Facebook's services. For core Facebook, user growth and engagement in the United States improved.
- **Edwards Lifesciences** is a global leader in treating heart disease with a minimally invasive procedure for heart valve replacement known as transcatheter aortic valve replacement (TAVR). A top contributor to returns last year, Edwards' stock price advanced during the quarter after the company presented positive results from a study that demonstrated the benefits of TAVR over open-heart surgery in low-risk patients, thus expanding the size of its potential market.
- Amid slowing economic growth in China, **Alibaba** achieved strong revenue growth.
- **Berkshire Hathaway** and **UnitedHealth Group** were the only two holdings in the portfolio that posted negative total returns.
- **Berkshire Hathaway** builds value over time through a collection of cash-generating businesses, decentralized management, superior capital allocation across many opportunities and a shareholder-first mentality. Berkshire's share price may have been negatively impacted by the headlines of the poor results and dividend cut at Kraft Heinz, of which Berkshire owns 27%. Despite Berkshire's large ownership in Kraft Heinz, it equals only about 2% of Berkshire's value.
- UnitedHealth Group stock price fell due to proposals by politicians for "Medicare for All" and other potential changes to our health care system.
- **Walt Disney Company** and **DowDuPont** were essentially flat during the quarter, while eBay rose modestly in what was a generally strong quarter for stocks.

FLEXIBLE EQUITY REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MA	Mastercard Incorporated Class A	5.32	25.02	1.25
V	Visa Inc. Class A	6.43	18.59	1.16
FB	Facebook, Inc. Class A	3.64	27.16	0.93
EW	Edwards Lifesciences Corporation	3.42	24.91	0.80
BABA	Alibaba Group Holding Ltd. Sponsored ADR	2.49	33.11	0.73
FLEXIBLE EQUITY REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
BRK.B	Berkshire Hathaway Inc. Class B	4.59	-1.61	-0.10
UNH	UnitedHealth Group Incorporated	3.03	-0.37	0.01
EBAY	eBay Inc.	0.03	3.21	0.02
DWDP	DowDuPont Inc.	1.47	0.37	0.02
DIS	Walt Disney Company	1.50	1.26	0.03

Portfolio Activity

- We sold **Altaba** in the first quarter and invested the proceeds in Alibaba (BABA)—a company that was added to the portfolio in the third quarter of 2018—due to a narrowing spread in valuation between the two. Since Altaba's value was largely tied to its investment in Alibaba, our exposure to the underlying business did not change. We now own Alibaba directly rather than through an intermediary. Alibaba is the largest e-commerce company in China. We believe that Alibaba will continue to achieve above-average growth in China and other regions in Asia.

- We eliminated **eBay**, one of the smallest holdings in the portfolio, due to its lagging overall e-commerce growth rates. We made our investment in eBay in 2014 and saw an opportunity for improvement in its namesake business and potential for its PayPal business. PayPal was spun out of eBay in 2016 and we kept that name. eBay was moderately successful as an investment and PayPal, to date, has been very successful, making the combination quite attractive overall.

FLEXIBLE EQUITY REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
	None	
DELETIONS		SECTOR
AABA	Altaba Inc.	Financials
EBAY	eBay Inc.	Consumer Discretionary

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Brown Advisory Institutional Flexible 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 Dispersion (%)	Composite Assets ($USD Millions)	GIPS Firm Assets ($USD Millions)
2017	25.1	24.6	21.8	11.4	9.9	50	0.3	2,912	33,155
2016	9.9	9.5	12.0	12.1	10.6	52	0.2	2,883	30,417
2015	-2.0	-2.4	1.4	11.1	10.5	56	0.2	2,686	43,746
2014	14.0	13.5	13.7	9.2	9.0	49	0.2	3,195	44,772
2013	37.5	36.9	32.4	11.9	11.9	44	0.4	2,247	40,739
2012	19.9	19.5	16.0	14.6	15.1	40	0.3	1,818	26,794
2011	5.8	5.4	2.1	18.5	18.7	43	1.1	1,714	19,962
2010	11.1	10.3	15.1	22.7	21.9	45	0.7	1,811	16,859
2009	37.1	36.0	26.5	21.3	19.6	48	3.4	1,905	11,058
2008	-36.5	-37.0	-37.0	16.6	15.1	51	1.9	1,541	8,547

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, 2016. 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 Institutional Flexible Equity Composite includes all actual, discretionary, institutional accounts with a flexible value equity objective of 100%. The strategy seeks bargains in "value" as well as "growth" stocks and invests primarily in the common stock of domestic companies with market capitalizations greater than $2 billion at the time of purchase. As of January 1, 2013, the minimum account market value required for composite inclusion is $1.5 million. Prior to August 2013 the name of this composite was Institutional Flexible Value. The strategy remains the same.
3. This composite was created in 1985.
4. The benchmark is the S&P 500® Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks that is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of dividends and do not reflect any fees or expenses. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers. Standard & Poor's, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global Inc.
5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. From January 2007, through December 2008, dispersion is calculated using the asset-weighted standard deviation of the annual gross returns of those accounts included in the composite for the full year.
6. Between October 2006 and December 2008, a significant cash flow policy was adopted for this composite. A significant cash flow is defined as a single flow of cash or securities of more than 25% of the portfolio's market value at prior month end. Accounts with significant cash flows are excluded from the composite for a grace period, defined as the month during which the flow occurred. Additional information regarding significant cash flow policies are available upon request.
7. 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. Other expenses can reduce returns to investors. Prior to 2011, net performance is based on a model fee using the highest fee in effect, 0.75% applied quarterly. The Actual fees may vary, depending on, among other things, the applicable fee schedule and portfolio size. The fee schedule is as follows: 0.60% on the first $25 million; 0.50% on the next $25 million; 0.45% on the next $50 million; and 0.40% on the balance over $100 million. For periods after 2011 actual fees are used to calculate net returns. Actual fees paid by accounts in the composite may differ from the current fee schedule.
8. 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.
9. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
10. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
11. Past performance does not indicate future results.
12. 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.

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Composite performance is based on the Brown Advisory Institutional Flexible Equity Composite and was obtained through FactSet®. All information and returns shown are as of 3/31/2019 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 Institutional Flexible Equity 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.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. 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. #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 a representative Institutional Flexible Equity account 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

Weighted Median: the value at which half the portfolio's market capitalization weight falls above and half falls below**. 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. **Price to Book Value** is a valuation ratio expressing the price of a security compared to its hard, or tangible, book value as reported in the company's balance sheet. The tangible book value number is equal to the company's total book value less the value of any intangible assets. Intangible assets can be such items as patents, intellectual property, goodwill etc. **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 brokers, calculated according to each broker's methodology. 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. **ROE, or Return on Equity**, is equal to a company's net income for a full fiscal year, divided by total shareholder equity. **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. **Active share** is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two. 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. 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.