

Second Quarter 2019

COMPOSITE PERFORMANCE(%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P® 500 INDEX
3 MOS.	4.87	4.74	4.30
YTD	20.13	19.88	18.54
1 YR.	9.50	9.03	10.42
3 YR.	17.63	17.16	14.19
5 YR.	11.28	10.84	10.71
10 YR.	15.94	15.42	14.70
25 YR.	11.87	11.18	9.97
ITD (12/31/1984)	13.45	12.71	11.23

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.	\$277.1B	\$242.7B
Weighted Median Market Cap.	\$203.1B	\$113.2B
P/E Ratio (FY2 Est.)	16.1x	16.2x
Earnings Growth (3-5 Yr. Est.)	14.4%	11.6%
Return on Equity (ROE)	23.6%	22.9%
Portfolio Turnover (3-Yr. Average)	12.4%	--
Active Share	72.2%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Visa, Inc.	6.5
Mastercard, Inc.	5.4
Microsoft Corp.	4.4
Alphabet Inc. (Class A & C)*	4.3
Berkshire Hathaway, Inc. Cl B	4.3
Facebook, Inc.	3.9
CarMax, Inc.	3.8
Lowe's Companies, Inc.	3.4
Edwards Lifesciences Corp.	3.3
JPMorgan Chase & Co.	3.1
TOTAL	42.4

Review & Outlook

The U.S.'s broader market index, the S&P 500® Index, which is also the Flexible Equity strategy's benchmark, returned 4.3% during the second quarter of 2019. For the first half of 2019, the gains in the S&P 500 Index were even more sizable at 17%, the Index's strongest showing since 1997. We are pleased to report that the Flexible Equity Strategy kept pace with the recent market gains and finished ahead of its benchmark for both the first half and the second quarter of 2019.

The gains in the equity market are set against a backdrop of an escalating trade dispute between the U.S. and China, and heightening concerns related to a slowing global economy. Fears related to a potential economic slowdown are reflected by a surge in demand for U.S. Treasuries, which is associated with a sharp decline in bond yields—the 10-year yield is below 2%, a level that was last observed in 2016. Despite the wall of worry, which has varied in nature and has beset many investors since the financial crisis of 2009, the bull market in U.S. equities continues to march on and is now in its 10th year—it is on track to be the longest rally in history. For a brief period in December last year, equity markets declined sharply when investors fretted over a possible policy decision made by the Federal Reserve when it decided to tighten interest rates. These fears continued to subside in June when the short-term interest rates held steady and central bankers took a more dovish position. It was almost unthinkable a few months ago that bond markets would be pricing in a rate cut later this year, signaling lower short-term rates. Against this backdrop of lower interest rates, both short and long term, equities remain an attractive asset class, in our view.

The Flexible Equity strategy seeks to invest in businesses that have good economics and sustainable business advantages. Tollbooth-like business models tend to have these characteristics. An operator of a traditional tollbooth is in an enviable position, as it collects a small toll from thousands of travelers who are willing to pay the small charge for using the road as other alternate routes are often inconvenient and/or uneconomical. These small tolls can add up to a meaningful sum for the tollbooth operator. In addition, customers tend to be sticky as they get used to their commuting patterns. The tollbooth operator often enjoys pricing power and lower incremental capital needs, which are powerful components that may help businesses to compound in value. Parallels to the tollbooth business model exist in other parts of the economy in which Flexible Equity has invested successfully over many years. The most notable examples of such investments are Visa and Mastercard. They have established ubiquitous payment networks that serve as rails for electronic transactions that cumulatively run into trillions of dollars and for which they collect a small "toll" (interchange) in basis points. These businesses generally enjoy wonderful economics and continue to compound in value.

We made a new investment this quarter in Stericycle, whose business has some tollbooth-like aspects. Stericycle's primary business is removal and disposal of medical waste (e.g., needles, syringes, blood) from hospitals and other health care providers (e.g., physicians, dental practices), which is a regulated area that requires proper handling. Stericycle helps customers maintain compliance and thus protects their brands. Stericycle enters into long-term contracts with customers and has a network of trucks, transfer sites and processing sites (e.g., incinerators and autoclaving units) to get the job accomplished. A few years ago, it also entered the business of document destruction (i.e., collection and shredding of paper) by acquiring Shred-it.

Stericycle enjoyed exceptional growth and enviable stock returns from the late 1990s until 2015 as it rolled up the industry by acquiring smaller players. Since then, however, problems have emerged due to slowing growth, misallocation of capital, poor integration of acquisitions and the lack of strong leadership. Previous investors in Stericycle exited in droves, and the company lost nearly two-thirds of its market value. We have followed the events unfolding at Stericycle closely for the last four years. Our interest was sparked when we noticed a change in the leadership of the board of directors, which helped bring in a new management team. Our in-person meetings with the incoming CEO, Cindy Miller, and the chairman of the board, Robert Murley, have instilled confidence that the new management team intends to bring the required change and increased discipline to revive the prospects of an attractive business model that was being run poorly, in our view. As the turnaround progresses over time, we believe there is an attractive return potential relative to the risks of any further shortcomings.

We also intend to share our notes from the Berkshire Hathaway shareholders' meeting, which several of us from the Flexible Equity strategy team attended, shortly. An interesting focus is on the topic of value investing and captures Buffett's response to a question posed on Berkshire's recent purchase of Amazon stock.

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 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 should improve, and company or industry changes for the better or as-yet-unrecognized potential for long-term growth and development. Despite the occasional investment that will 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.



MANEESH BAJAJ, CFA
Portfolio Manager

*Alphabet Inc. represents a 1.9% holding position in class A and 2.5% in class C shares of the stock.

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.
- The price weakness in **Alibaba Group Holding**, **Booking Holdings** and **Lowe's** gave us the opportunity to add to these holdings, thereby increasing our investment in consumer discretionary.
- Price declines in **Cimarex Energy** and **Suncor Energy** impacted our energy sector weighting.
- We eliminated **T. Rowe Price** and trimmed **Regions Financial**, which reduced our weighting to financials.
- **Anthem**, **Edwards Lifesciences** and **UnitedHealth Group** fell slightly, decreasing our health care weighting.
- Our industrials weighting increased with the investment in new holding, **Stericycle**.

SECTOR	FLEXIBLE EQUITY REP. ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	FLEXIBLE EQUITY REP. ACCOUNT (%)	
	Q2 '19	Q2 '19	Q2 '19	Q1 '19	Q2 '18
Communication Services	10.13	10.19	-0.06	10.04	9.77
Consumer Discretionary	15.20	10.19	5.01	14.71	13.74
Consumer Staples	3.24	7.27	-4.03	3.36	3.93
Energy	4.50	5.05	-0.55	4.85	5.36
Financials	19.90	13.07	6.83	20.84	25.65
Health Care	9.01	14.20	-5.19	9.37	9.13
Industrials	7.55	9.38	-1.83	6.20	6.46
Information Technology	26.50	21.48	5.02	26.67	23.54
Materials	1.25	2.80	-1.55	1.36	--
Real Estate	2.70	3.05	-0.35	2.61	2.44
Utilities	--	3.31	-3.31	--	--

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.
- Information technology contributed the most to the portfolio's return as compared to the S&P 500 Index. The strategy's information technology had a higher return and a larger weighting than the Index.
- Real estate was the second best contributor relative to the Index. The sector had a higher return but a lower weighting than the S&P 500 Index.
- The financials sector was the biggest detractor despite its positive return. The sector weighting was higher, but the return was lower than the Index.
- The strategy's health care and materials names both had negative returns as compared to the positive returns for these sectors in the Index. Their weightings were also lower.

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	10.30	5.38	10.30	4.49	--	0.09	0.09
Consumer Discretionary	14.71	4.25	10.24	5.26	0.05	-0.13	-0.08
Consumer Staples	3.39	1.05	7.31	3.71	0.03	-0.09	-0.06
Energy	4.63	-2.10	5.16	-2.84	0.04	0.03	0.07
Financials	20.39	5.33	13.08	7.99	0.27	-0.50	-0.23
Health Care	8.93	-1.68	14.03	1.38	0.15	-0.28	-0.12
Industrials	7.40	4.07	9.42	3.58	0.01	0.01	0.02
Information Technology	26.33	9.22	21.40	6.04	0.11	0.75	0.86
Materials	1.30	-4.48	2.69	6.30	-0.03	-0.12	-0.15
Real Estate	2.63	8.38	3.07	2.46	0.01	0.16	0.16
Utilities	--	--	3.30	3.48	0.03	--	0.03
Total	100.00	4.89	100.00	4.30	0.66	-0.07	0.59

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

Quarterly Contribution to Return

- **CarMax** generated strong sales growth and profitability in the first quarter, exceeding analysts' earnings expectations.
- **Visa** and **Mastercard**, the two largest holdings in the portfolio and top contributors last quarter, continue to benefit from positive secular trends in the payments industry. Reported earnings from both companies were ahead of expectations.
- **Microsoft's** fiscal third-quarter results were attractive, as the increase in revenues in each of its businesses was robust.
- **Facebook's** revenues and profits were higher than estimates for the first quarter. The closely watched metrics of user growth and engagement were steady, and expense growth has moderated, a positive development, in our view.
- **Lowe's** revenue growth in the first quarter was in line with expectations, but expenses were higher and the company reduced its earnings guidance for the full year. We believe that the new CEO is focused on improving profitability.
- **Alphabet's** stock price declined as the company's earnings report included lower-than-expected advertising revenue growth at Google.
- The strategy's new holding, **Stericycle**, fell after a disappointing earnings report that focused on a shortfall in operating metrics. However, the company made progress with its business improvement initiatives, including better cost allocation and revisions to its incentive plans. We added to our investment following the price decline.
- **Alibaba**, a top contributor to the portfolio last quarter, reported better-than-expected sales and earnings driven by its accelerating core China marketplace businesses, but this was not enough to offset the headlines dominated by macro and trade war concerns. China is shifting to a consumer-driven economy, and Alibaba should be a big beneficiary of this trend, which is already evidenced by the tremendous growth in its core marketplace business.
- **Cimarex Energy** fell with the decline in the price of oil.

FLEXIBLE EQUITY REP.ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
KMX	CarMax, Inc.	3.59	24.40	0.80
V	Visa Inc. Class A	6.46	11.28	0.72
MA	Mastercard Incorporated Class A	5.51	12.51	0.65
MSFT	Microsoft Corporation	4.30	14.00	0.56
FB	Facebook, Inc. Class A	3.87	15.78	0.53
FLEXIBLE EQUITY REP.ACCOUNT BOTTOM FIVE CONTRIBUTORS				
LOW	Lowe's Companies, Inc.	3.61	-7.43	-0.25
GOOG	Alphabet Inc. Class C	2.73	-7.88	-0.23
SRCL	Stericycle, Inc.	1.05	-15.46	-0.20
BABA	Alibaba Group Holding Ltd. Sponsored ADR	2.48	-7.13	-0.19
XEC	Cimarex Energy Co.	1.08	-14.87	-0.18

Portfolio Activity

- New holdings **Corteva** (agricultural products) and **Dow** (materials science) are spinoffs from DowDuPont (specialty products). We continue to hold these companies and believe that value will be realized from these and future business portfolio changes within the various DowDuPont companies.
- We initiated a new position in **Stericycle**. The company is in the business of regulated medical waste removal and document destruction. Its business is a tollbooth on medical and business activity with a highly recurring revenue base. The business had faced challenges due to poor management. A new management team is in place to revive the business prospects.
- **T. Rowe Price** is an attractive business, but the asset management industry is facing challenges, including fee compression as low-fee, passive investing continues to gain share. We purchased Stericycle with the proceeds from the sale of T. Rowe Price.

FLEXIBLE EQUITY REP.ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
CTVA	Corteva Inc	Materials
DOW	Dow, Inc.	Materials
SRCL	Stericycle, Inc.	Industrials
DELETIONS		SECTOR
TROW	T. Rowe Price Group	Financials

Brown Advisory Institutional Flexible Equity Composite

Year	Composite TotalGross Returns (%)	Composite TotalNet Returns (%)	BenchmarkReturns (%)	Composite 3-Yr AnnualizedStandard Deviation (%)	Benchmark 3-Yr AnnualizedStandard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (\$USD Millions)	GIPS Firm Assets (\$USD Millions)
2018	-3.3	-3.7	-4.4	12.3	10.8	41	0.3	2,263	30,529
2017	25.1	24.6	21.8	11.4	9.9	50	0.3	2,912	33,155
2016	9.9	9.4	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, 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 CFAINstitute.

- *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.
- 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.
- This composite was created in 1985.
- 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.
- 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.
- 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.
- 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.
- 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.
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
- 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 6/30/2019 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.

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.