

# Flexible Equity Review and Outlook

The S&P 500® Index, the Flexible Equity Strategy's benchmark, gained 1.7% during the third quarter of 2019 and 20.6% for the year-to-date period. U.S. equity markets have appreciated every quarter this year thus far, although the gains for each quarter have been successively lower. The Flexible Equity Strategy was ahead of its benchmark this quarter as well as the first two quarters of the year. Outperforming every quarter against the benchmark is not our expectation. And it should not be your expectation either. For that matter, beating the benchmark every calendar year is also not our expectation, as prices are set by the market and beyond a manager's control. Managers can only control what the portfolio holds. In our experience, no persistent advantage is gained in trying to predict the next move in prices. We believe that prices track a business' progress over the long term. Investing in attractive businesses at reasonable prices and being patient with companies that are making progress have allowed us to outperform the market over a *longer* period of time on a fairly regular basis.

The upward march in U.S. equities has continued despite worries of an economic slowdown. Uncertainty in the trade policy, with no imminent resolution with China, has led to weakness in the trade-linked economy both in the U.S. and globally. New geopolitical risks (e.g., riots in Hong Kong, rising tension with Iran, recent impeachment talks), along with some old (e.g., a looming Brexit), have further weighed on market sentiment. Bond yields have rallied strongly in the last year, as signs of slowing economic growth have emerged. In August, the yield on the two-year U.S. Treasury note was briefly above the 10-year note, which last happened in March 2007 before the Great Recession. This economic phenomenon has preceded every U.S. recession in the past half-century. We believe that bond investors were fearful of the slowing economy and expected the Federal Reserve to lower short-term interest rates. As a result, bond investors were selling short-term bonds to buy longer-duration bonds, which drove long-term interest rates lower. Some market observers have argued for lower rates and believe that the Effective Federal Funds Rate is above the neutral rate. The Federal Reserve has followed with two rate cuts in quick succession this quarter, which seems to have boosted sentiments.

Despite many fears and headlines, credit market conditions in the U.S. remain strong, and the economic data is encouraging. For example, the current U.S. expansion is in its 11<sup>th</sup> year, the longest on record, and payroll continues to expand. In the U.S., non-farm payroll growth has been strong, although somewhat below the average monthly gains experienced in 2018. Wages are growing and increasing the most for people on the lower end of the wage scale. In addition, inflationary forces are contained as inflation continues at a rate below 2%.

We take a long-term view to investing, and our time horizon spans multiple years. Therefore, it would be foolish for us to believe that we will not encounter an economic slowdown in our investment time horizon. For most market participants, it is extremely difficult to consistently predict the timing of a slowdown, let alone the duration and depth of it. The good news is that most economic slowdowns have not lasted that long, and the economy has always recovered and reached new nominal highs. The stock market generally follows a similar pattern, although the amplitude of market decline and recovery is meaningfully higher as investors become overly fearful during declines and overly euphoric during peaks. The odds of generating outsized returns in an investment are typically the best when market participants are fearful.

One sector of the economy where we see some degree of fear of an economic slowdown being priced in is in the U.S. banking industry. The average price-to-earnings multiple for the sector is 10 times, which is lower than its historical average and is at 60% of the current market multiple. Many investors are fearful and remain on the sidelines. They view the industry as a complex, levered housing play from the financial crisis back in 2009. The fear has persisted despite improvements in the health of the U.S. banking system (e.g., lower leverage, well contained loan losses due to tighter lending standards and the highest return on capital in the last decade). Including both the dividend yield and the amount of capital returned through share repurchase programs, the median bank in the U.S. is "yielding" close to 10%, which is the highest among all sectors in S&P 500 Index.

*(Continued on the following page)*

# Flexible Equity Review and Outlook

We have a particularly favorable long-term view of the largest banks, which have undergone a transformation since the last financial crisis. The Flexible Equity portfolio continues to hold meaningful positions in J.P. Morgan, Bank of America and Wells Fargo. These institutions have strong balance sheets, scale advantages, superior deposit growth, record efficiency ratios and strong capital returns to shareholders in place. All three banks appear in the top 10 list of spenders on technology, along with Amazon, Google and Microsoft (also companies in the portfolio). These banks have built savvy digital presences and are investing in emerging technologies, like artificial intelligence and machine learning, to better tailor their offerings to consumers. Consumers too are inclined to do more banking on their smartphones instead of at physical branch locations. Due to their scale and digital presence, bigger banks have continued to gain market share. Over the last year, more than half of all new deposit accounts in the country were opened at the largest four banks. These deposits are sticky and have the lowest cost of funding, which can lead to higher returns on capital for the banks. These banks are also in the process of rationalizing their branch network, which has reduced fixed costs and improved efficiency ratios.

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, 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.

# Sector Diversification

- We base our investment approach on individual company selection and incorporate a reasonable balance of sector exposures as part of our risk management process. Companies in the same economic sectors can vary as greatly in their business economics and profiles as companies in completely different sectors.
- The consumer discretionary weighting was higher with the strong increase in share price for Lowe's Companies. Booking Holdings, CarMax and TJX Companies also increased.
- Our financial holdings, except for Berkshire Hathaway, all increased in value. We added to Bank of America with the proceeds from trimming our position in Wells Fargo. We eliminated Regions Financial.
- We added to Stericycle, increasing our industrials weighting.
- Our materials investment declined with the sale of Corteva, which was spun off from DowDuPont earlier this year.
- Our real estate holdings, wireless tower companies Crown Castle International and SBA Communications rose in the quarter.

GICS SECTOR	REPRESENTATIVE FLEXIBLE EQUITY ACCOUNT (%)	S&P 500 INDEX (%)	DIFFERENCE (%)	REPRESENTATIVE FLEXIBLE EQUITY ACCOUNT (%)	
	Q3'19	Q3'19	Q3'19	Q2'19	Q3'18
Communication Services	10.22	10.36	-0.14	10.13	10.03
Consumer Discretionary	15.57	10.11	5.45	15.20	12.60
Consumer Staples	3.35	7.60	-4.25	3.24	4.06
Energy	4.38	4.52	-0.15	4.50	5.27
Financials	19.20	12.94	6.26	19.90	24.80
Health Care	9.02	13.65	-4.64	9.01	9.03
Industrials	7.77	9.34	-1.58	7.55	6.42
Information Technology	26.66	21.93	4.73	26.50	25.54
Materials	0.96	2.73	-1.76	1.25	--
Real Estate	2.88	3.22	-0.34	2.70	2.26
Utilities	--	3.59	-3.59	--	--

# Quarter-to-Date Contribution Detail by Sector

REPRESENTATIVE FLEXIBLE EQUITY ACCOUNT			S&P 500 INDEX		CONTRIBUTION TO RETURN ANALYSIS		
GICS SECTOR	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	REPRESENTATIVE FLEXIBLE EQUITY ACCOUNT(%)	S&P 500 INDEX (%)	DIFFERENCE (%)
Communication Services	10.43	1.47	10.44	2.23	0.13	0.23	-0.09
Consumer Discretionary	15.39	3.02	10.20	0.51	0.50	0.06	0.44
Consumer Staples	3.34	4.13	7.47	6.12	0.12	0.46	-0.33
Energy	4.21	-3.53	4.67	-6.44	-0.16	-0.33	0.17
Financials	18.84	2.75	12.93	1.98	0.47	0.23	0.25
Health Care	9.37	0.82	13.89	-2.25	0.04	-0.32	0.36
Industrials	7.60	1.60	9.25	1.00	0.12	0.09	0.04
Information Technology	26.91	2.59	21.87	3.38	0.75	0.73	0.02
Materials	1.00	-5.03	2.72	-0.13	-0.06	-0.01	-0.05
Real Estate	2.92	7.45	3.16	7.70	0.21	0.24	-0.03
Utilities	--	--	3.40	9.34	--	0.32	-0.32
<b>Total</b>	<b>100.00</b>	<b>2.14</b>	<b>100.00</b>	<b>1.70</b>	<b>2.14</b>	<b>1.70</b>	<b>0.44</b>

- Contribution analysis is a tool that shows the combined effect of weighting and return to the total return earned.
- We focus our efforts on individual company selection and incorporate a reasonable balance of sector exposures as part of our risk management process.
- Consumer discretionary, financials and information technology—the largest sectors in the portfolio—contributed the most to returns in the quarter.
- Energy and materials sectors declined and detracted from absolute returns.

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# Quarter-to-Date Attribution Detail by Sector

REPRESENTATIVE FLEXIBLE EQUITY ACCOUNT			S&P 500 INDEX		ATTRIBUTION ANALYSIS		
GICS SECTOR	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION & INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	10.43	1.47	10.44	2.23	--	-0.08	-0.08
Consumer Discretionary	15.39	3.02	10.20	0.51	-0.06	0.40	0.34
Consumer Staples	3.34	4.13	7.46	6.12	-0.18	-0.08	-0.25
Energy	4.21	-3.53	4.67	-6.44	0.04	0.13	0.17
Financials	18.84	2.75	12.93	1.98	0.02	0.13	0.15
Health Care	9.37	0.82	13.89	-2.25	0.19	0.26	0.46
Industrials	7.60	1.60	9.25	1.00	0.01	0.05	0.06
Information Technology	26.91	2.59	21.87	3.38	0.10	-0.18	-0.09
Materials	1.00	-5.03	2.72	-0.13	0.03	-0.06	-0.03
Real Estate	2.92	7.45	3.16	7.70	-0.01	-0.02	-0.03
Utilities	--	--	3.40	9.34	-0.25	--	-0.25
<b>Total</b>	<b>100.00</b>	<b>2.14</b>	<b>100.00</b>	<b>1.70</b>	<b>-0.11</b>	<b>0.56</b>	<b>0.44</b>

- 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 meaningful limitations, but it is frequently requested, so we share it for that reason.
- The portfolio outperformed the S&P 500 Index.
- Health care contributed the most to the portfolio's return relative to the S&P 500 Index. The sector in the portfolio had a positive return and a lower weighting than the benchmark. The sector in the Index declined.
- Consumer discretionary was the second-best contributor relative to the portfolio's benchmark. The sector had a higher weighting and a higher return than the Index.
- The consumer staples sector was the biggest detractor despite its positive return. The sector weighting and return were lower than the Index.
- We did not hold any utilities in the portfolio, which had the highest sector return in the Index.

Source: FactSet. Total portfolio return figures provided above 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. The portfolio information provided is based on a representative Flexible Equity account and is provided as supplemental information. Sectors are based on the Global Industry Classification Standard (GICS) classification system. Sector attribution excludes cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# Quarter-to-Date Top Five Contributors to Return

## *Representative Flexible Equity Account* Top Five Contributors

	NAME	DESCRIPTION	AVERAGE WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
EW	Edwards Lifesciences Corporation	Designs, develops, manufactures and markets products to treat late-stage cardiovascular disease	3.82	19.04	0.63
GOOG	Alphabet Inc. Class C	Operates as a holding company with interests in software, health care, transportation and other technologies	2.74	12.78	0.54*
GOOGL	Alphabet Inc. Class A	Operates as a holding company with interests in software, health care, transportation and other technologies	2.06	12.78	
AAPL	Apple Inc.	Designs, manufactures and markets mobile communication, media devices, personal computers and portable digital music players	2.89	13.59	0.37
LOW	Lowe's Companies Inc.	Engages in the retail sale of home improvement products	3.64	9.58	0.35

- Edwards Lifesciences' quarterly results included higher than expected earnings due to an increased global demand for Transcatheter Aortic Valve Replacement (TAVR) therapy. We believe that the outlook for the company is favorable as its SAPIEN 3 transcatheter heart valve expands its addressable market. The SAPIEN3 valve has demonstrated lower rates of mortality and disabling stroke in low-risk patients.
- Alphabet reported a reacceleration in revenue growth in its second quarter across all regions. This was driven by increases in Mobile Search, YouTube and Cloud. The company announced an additional \$25 billion share repurchase authorization.
- Apple posted a quarterly revenue increase of 1% (year-over-year) despite a decline in iPhone sales. Revenues increased for "Other" products, such as Wearables and for its Services business. Earnings in the second quarter were higher than investors' expectations as was its third-quarter guidance for sales and earnings.
- Lowe's achieved better quarterly same-store sales and better gross margins. We continue to believe that operational improvements currently underway at Lowe's should put it in a better position to compete in the marketplace.

Source: FactSet. \*The contributions to return for GOOG and GOOGL are 0.31% and 0.23%, respectively. 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. 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. Security returns listed represent the period when the security was held during the quarter. The portfolio information provided is based on a representative Flexible Equity account and is provided as supplemental information. Top five contributors exclude cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# Quarter-to-Date Bottom Five Contributors to Return

## *Representative Flexible Equity Account* Bottom Five Contributors

	NAME	DESCRIPTION	AVERAGE WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
UNH	UnitedHealth Group Incorporated	Provides hospital and medical service plans	2.81	-10.51	-0.31
FB	Facebook Inc. Class A	Operates as a social networking service and website	3.96	-7.73	-0.30
ANTM	Anthem Inc.	Provides life, hospital and medical insurance plans	1.84	-14.64	-0.29
PYPL	PayPal Holdings Inc.	Provides digital and mobile payments on behalf of consumers and merchants	2.27	-9.50	-0.21
XEC	Cimarex Energy Co.	Operates as an oil and gas exploration and production company	0.81	-19.05	-0.20

- Both managed care company holdings Anthem and UnitedHealth Group declined as investors became increasingly nervous about potential regulatory changes proposed by some presidential candidates that could adversely affect these business models. We believe the companies will continue to play a role in health care delivery in the future.
- Facebook's stock has increased by 36% year to date, a return that includes the current quarter's 7.7% decline. We expect Facebook's stock to be quite volatile despite its attractive business fundamentals, because it—along with other internet platform companies—will be subject to an antitrust investigation.
- PayPal reported good quarterly results but reduced its revenue guidance for the third quarter.
- Cimarex continues to be challenged by lower crude oil prices, declining natural gas prices in the Permian and poor investor sentiment toward the sector. The company is primarily an oil producer, but it also produces “associated” gas, a byproduct of the oil extraction, which represents 20% of its earnings and impacts its earnings-per-share growth. A new pipeline scheduled to come online later this year should improve transportation challenges, which have put pressure on gas prices.



## Quarter-to-Date Additions/Deletions

- While there were no new holdings purchased, we added to existing positions in Bank of America, Cimarex Energy and Stericycle.
- We sold our very small investment in Corteva (agricultural products). The company was a spin-off from DowDuPont. We were unlikely to add to the position.
- We eliminated Regions Financial. Our thesis about the company's capital return to shareholders has been satisfied. We prefer to own the larger banks in the portfolio at this time.

### *Representative Flexible Equity Account* Portfolio Activity

SYMBOL ADDITIONS		GICS SECTOR
None		
SYMBOL DELETIONS		GICS SECTOR
CTVA	Corteva Inc.	Materials
RF	Regions Financial Corporation	Financials



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# Portfolio Characteristics

As of 09/30/2019



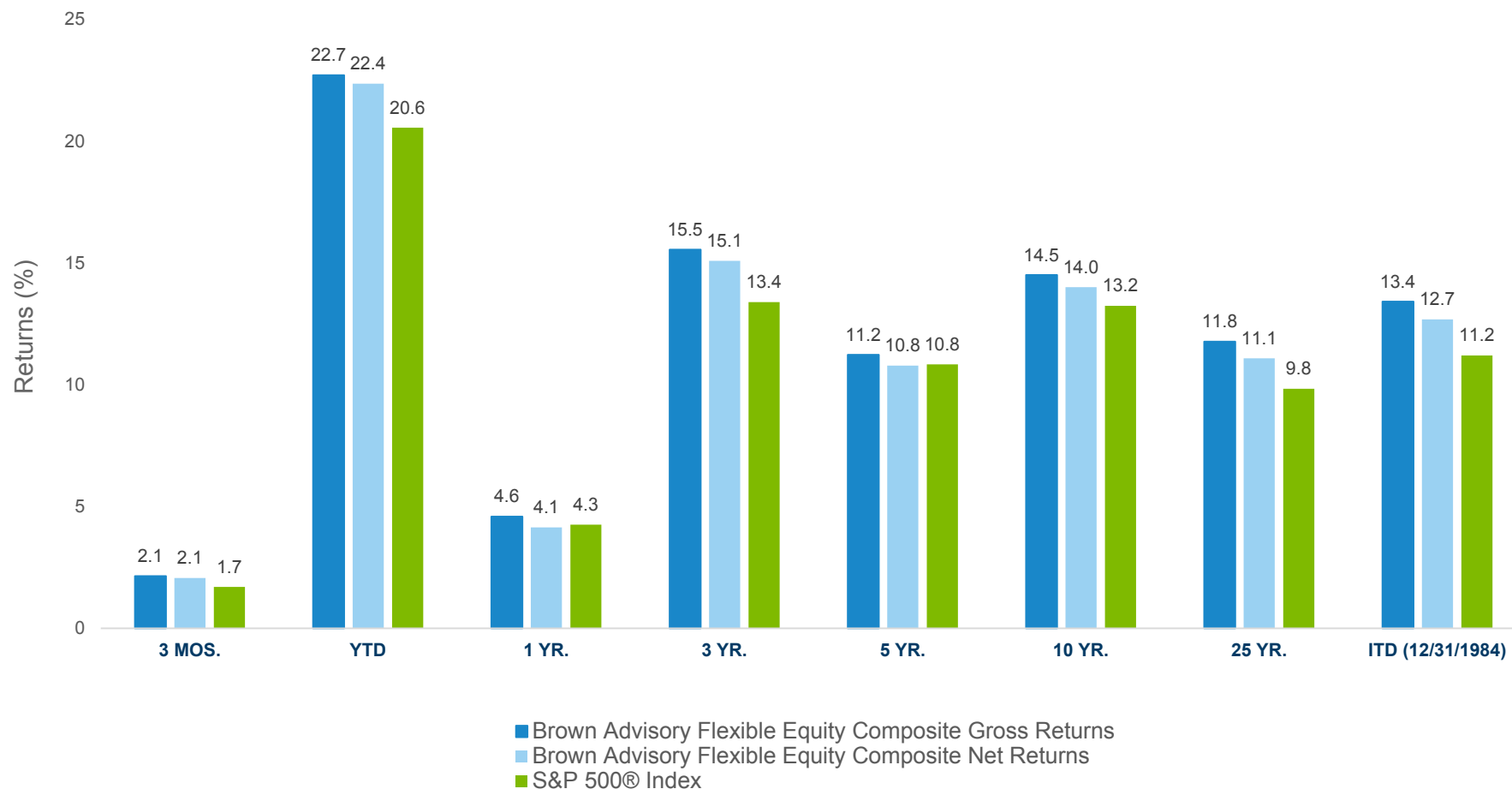
	REPRESENTATIVE FLEXIBLE EQUITY ACCOUNT	S&P 500 INDEX
Number of Holdings	44	505
Market Capitalization (\$ B)		
Weighted Average	289.3	249.7
Weighted Median	206.0	114.2
Maximum	1,062.6	1,062.6
Minimum	4.0	3.2
P/E Ratio FY1 Est. (x)	18.5	18.3
P/E Ratio FY2 Est. (x)	16.7	16.5
Earnings Growth 3-5 Yr. Consensus Est. (%)	13.7	11.4
Dividend Yield (%)	1.2	1.9
Top 10 Equity Holdings (%)	43.3	21.6
Three-Year Annualized Portfolio Turnover (%)	11.9	--

Source: FactSet. The portfolio information provided is based on a representative Flexible Equity account and is provided as supplemental information. Portfolio characteristics exclude cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

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# Composite Performance

As of 09/30/2019



Source FactSet. All returns greater than one year are annualized. Past performance is not indicative of future results. The composite performance shown above reflects the Institutional Flexible Equity Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Institutional Flexible Equity Composite disclosure statement at the end of this presentation for a GIPS compliant presentation.

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# Top 10 Portfolio Holdings

## Representative Flexible Equity Account

As of 09/30/2019

### Top 10 Portfolio Holdings

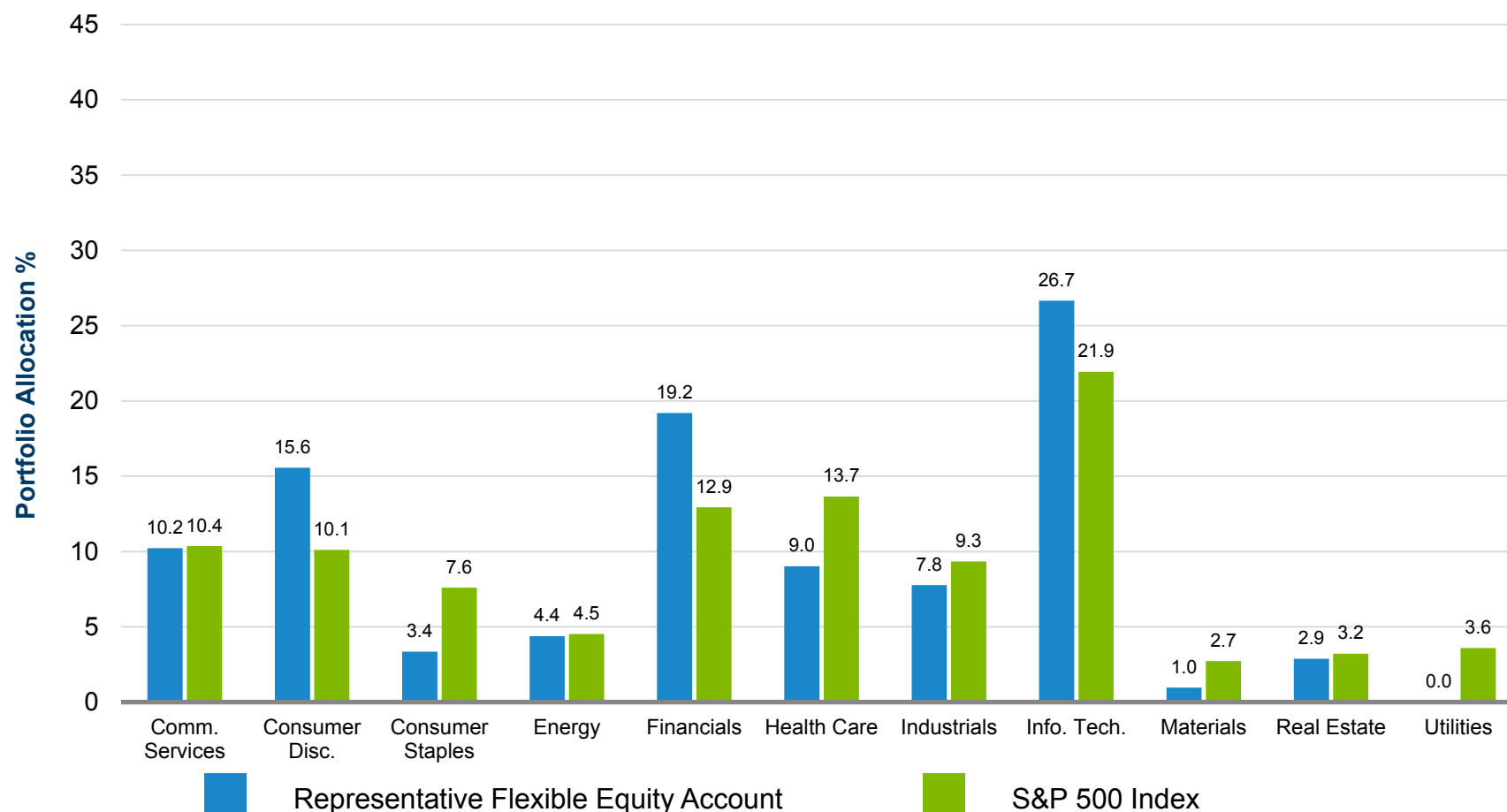
TOP 10 HOLDINGS	% OF PORTFOLIO
Visa, Inc.	6.3
Mastercard, Inc.	5.4
Alphabet, Inc. (Class A & C)*	4.8
Microsoft Corp.	4.4
Berkshire Hathaway, Inc. Cl B	4.1
Edwards Lifesciences Corp.	3.8
CarMax, Inc.	3.8
Cash & Equivalents	3.8
Lowe's Companies, Inc.	3.7
Facebook, Inc.	3.6
<b>Total</b>	<b>43.7%</b>

Source: FactSet. \*Alphabet Inc. represents a 2.0% holding position in class A and 2.7% in class C shares of the stock. 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. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a representative Flexible Equity account and is provided as supplemental information. Please see disclosure statement at the end of this presentation for additional information. Figures in chart may not total due to rounding.

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# Sector Diversification

As of 09/30/2019



# Disclosures, Terms and Definitions

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

*For Institutional Investors Only.*

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The **S&P 500® Index** represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include market capitalization, financial viability, liquidity, public float, sector representation and corporate structure. An index constituent must also be considered a U.S. company. Standard & Poor's, S&P, and S&P 500® are trademarks/service marks of MSCI and Standard & Poor's.

An investor cannot invest directly into an index.

Global Industry Classification Standard (GICS®) and "GICS" are service makers/trademarks of MSCI and Standard & Poor's.

FactSet® is a registered trademark of FactSet Research Systems Inc.

Figures shown on sector diversification and quarterly attribution by detail slides may not total due to rounding.

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted.

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 in the portfolio by the security's return on a daily basis, and geometrically linking the return to the reporting period.

**Market Capitalization** refers to the aggregate value of a company's publicly traded stock. Statistics are calculated as follows: Weighted Average: 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); Weighted Median: the value at which half the portfolio's market capitalization weight falls above and half falls below; Maximum and Minimum: the market caps of the largest and smallest companies, respectively, in the portfolio.

**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. Calculated as a weighted harmonic average.

**Earnings Growth 3-5 Year Est.** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokerage firms, calculated according to each broker's methodology. Calculated as weighted average.

**Price/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. Calculated as a weighted harmonic average.

**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. Calculated as weighted average.

**Portfolio Turnover** 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. Portfolio turnover is provided for a three-year trailing period.

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.

# 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)*
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 CFA Institute.

- \*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 composite dispersion presented is an equal-weighted standard deviation of portfolio returns calculated for the accounts in the composite for the entire calendar year period.
- 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.
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