Global Leaders

QUARTERLY STRATEGY UPDATE

Second Quarter 2019

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	FTSE ALL WORLD NET INDEX
3 Mos.	5.17	4.99	3.33
1 YR	11.04	10.33	5.30
3 YR	17.46	16.61	11.44
ITD (1 May 2015)	12.03	11.19	6.42

The composite performance shown above reflects the Brown Advisory Global Leaders 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

	GLOBAL LEADERS REP. ACCT.	FTSE ALL WORLD NET INDEX
ROIC (LFY ex. financials) Median (%)	25.9	12.4
Hist 3Yr Sales Growth (Median) (%)	9.2	7.1
NTM EV/EBIT (ex. financials Median)	17.2x	13.0x
FCF (LFY ex. financials) Median (%)	4.4	4.6
P/E (NTM) Median	22.0x	14.5x

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corporation	7.6
Visa Inc. Class A	6.3
Alphabet Inc. Class C	4.7
Unilever PLC	4.6
Mastercard Incorporated Class A	4.2
Estee Lauder Companies Inc. Class A	3.8
AIA Group Limited	3.8
Booking Holdings Inc.	3.6
JPMorgan Chase & Co.	3.4
Atlas Copco AB Class B	3.3
TOTAL	**45.3**



MICK DILLON, CFA
Portfolio Manager



BERTIE THOMSON, CFA
Portfolio Manager

Review & Outlook

The Global Leaders strategy outperformed its benchmark, the FTSE All-World Index, in the second quarter of 2019.

Despite continued uncertainty stemming from the U.S.-China trade war, global equities generally performed well in the quarter. We were pleased to see the Global Leaders strategy outperform its benchmark.

The Global Leaders strategy is focused on delivering long-term performance by buying a concentrated portfolio of companies that uniquely satisfy their customers and generate attractive economics for shareholders. Given its concentrated nature, the Global Leaders strategy's performance is an output of our stock picking and relative performance benefited from our holdings in the information technology and consumer staples sectors for the quarter.

We believe capital allocation is equally important as stock selection, and we are pleased to see three of our top five biggest positions contributed the largest amount of alpha for another quarter. Core holdings Microsoft, Visa and Mastercard, all materially outperformed during the period.

Alphabet was the largest detractor, as the company reported mixed results and Google advertising revenues (sites and network) decelerated more than expected. While our thesis remains intact, Alphabet's stock price dropped after the Department of Justice announced an investigation into potential monopolistic business practices. Our investigative research team has been having extensive meetings with antitrust experts in Washington, and we continue to monitor developments.

Although we did not add any new positions during the quarter, we continue to diligently follow our drawdown review process. We conducted two drawdown reviews, which resulted in us exiting both stocks. 3M and Cognizant were both eliminated during the quarter. 3M has been reinvesting capital at an incrementally lower return on capital. Additionally, we worry about capital allocation through mergers and acquisitions, as the recent health care acquisition was both large and expensive. Our meetings with Cognizant management confirmed it has seen a worsening of its competitive position, with supply-side disruption leading to declining growth in the traditional business. Our biggest fear is always a company that is no longer uniquely serving its customer. Cognizant has been internally focused, and it is not clear how long a turnaround by the new CEO will take, and therefore we decided to allocate elsewhere.

The Global Leaders' team remains focused on executing on the investment process and scouring the globe for high-quality companies. We remain very active on the research front and maintain extensive rate of review and ready to buy lists. Patience is an underrated virtue in investing, and we remain disciplined on entry points for attractive assets. We feel that overpaying for good businesses is an ever-present risk for quality-focused investors.

Sector Diversification

- Global Leaders is a concentrated global strategy that focuses on investing in a small number of franchises that we believe deliver exceptional outcomes for their customers and outstanding economics for shareholders. Accordingly, sector and country diversification are outputs of stock picking, with the team more focused on business models and end-market economics than in which sector a company is classified.
- At the same time, the strategy seeks differentiated exposures but will not compromise philosophically. The portfolio managers are happy to have no exposure in areas such as energy, real estate or utilities that do not satisfy their investment criteria.
- The strategy's overweight position in information technology–its largest—is a function of a number of attractive high-quality franchises, such as Mastercard, Microsoft and Visa, located in that sector.

SECTOR	GLOBAL LEADERS REP. ACCOUNT (%)	FTSE ALL WORLD NET INDEX (%)	DIFFERENCE (%)	GLOBAL LEADERS REP. ACCOUNT (%)	
	Q2 '19	Q2 '19	Q2 '19	Q1 '19	Q2 '18
Communication Services	13.45	8.93	4.52	14.13	13.05
Consumer Discretionary	8.17	10.45	-2.29	8.86	11.13
Consumer Staples	11.28	8.29	2.99	10.50	8.89
Energy	--	5.92	-5.92	--	--
Financials	19.88	17.21	2.68	18.84	19.16
Health Care	2.81	11.41	-8.60	2.94	3.27
Industrials	14.97	10.60	4.36	15.71	17.96
Information Technology	24.33	15.64	8.69	24.28	21.94
Materials	5.12	5.07	0.05	4.73	4.62
Real Estate	--	3.18	-3.18	--	--
Utilities	--	3.30	-3.30	--	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- During the quarter, information technology was the top-performing sector, driven primarily by our individual companies, such as **Microsoft, Visa** and **Marvell**.
- Consumer staples, helped by **Estee Lauder,** was the next top-performing sector to relative outperformance.
- Our investments within the communication services sector were a drag on relative performance, and, as a result, this sector was the largest detractor during the quarter. **Alphabet** was the worst-performing investment in the quarter.

SECTOR	GLOBAL LEADERS REP. ACCOUNT		FTSE ALL WORLD NET INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	13.78	-3.49	8.94	3.46	--	-1.00	-1.00
Consumer Discretionary	8.23	-1.90	10.48	4.35	--	-0.51	-0.51
Consumer Staples	10.75	9.07	8.36	2.76	-0.04	0.67	0.63
Energy	--	--	6.04	-0.83	0.28	--	0.28
Financials	19.25	8.06	17.23	5.96	0.04	0.38	0.42
Health Care	2.76	-3.44	11.29	1.53	0.18	-0.13	0.06
Industrials	15.50	7.75	10.58	4.46	0.03	0.48	0.52
Information Technology	24.83	9.39	15.64	5.48	0.14	0.96	1.11
Materials	4.89	9.55	4.97	3.85	0.01	0.26	0.27
Real Estate	--	--	3.19	0.57	0.10	--	0.10
Utilities	--	--	3.26	3.00	0.02	--	0.02
Total	**100.00**	**5.65**	**100.00**	**3.75**	**0.77**	**1.13**	**1.90**

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- **Microsoft** reported positive results during the quarter. The company continues to see strong demand for its products particularly in larger, long-term Azure deals.
- **Visa** and **Mastercard** continue to perform well, and both companies agreed on acquisitions in the second quarter to broaden their payments solutions.
- **Atlas Copco** reported solid earnings for the quarter. The company continues to progress in line with our thesis as it leverages secular trends in automation and equipment efficiency. The stock rebounded late in the quarter after being one of the worst performers in May due to auto and semiconductor exposure end customers.
- **Marvell Technology's** quarterly results beat expectations. The company continues to be on track with internal expectations on its 5G prospects with both Samsung and Nokia. It announced one divestiture at 6x sales and two acquisitions at 3x sales within the quarter, which we view as evidence of sensible capital allocation.
- **Alphabet** was the largest detractor during the second quarter. Results were mixed as Google advertising revenues (sites and network) decelerated more than expected. However, our thesis remains intact as Google Sites TAC leveraged, headcount growth decelerated and capital intensity meaningfully declined. This news was overshadowed by the Department of Justice's announcement of an investigation into potential monopolistic business practices. Our investigative research team has been having extensive meetings with antitrust experts in Washington, and we continue to monitor developments.
- **Ctrip's** stock price fell during the quarter as there were heightened concerns over the impact of trade wars and tariffs. It was one of our best-performing stocks in the first quarter.
- **Charles Schwab** was down during the quarter as the company faces near-term headwinds and a weakening interest rate outlook based on prospects of lower U.S. interest rates.
- We eliminated our positions in **3M Company** and **Cognizant Technology Solutions** this quarter. Please see commentary on both below.

GLOBAL LEADERS REP. ACCOUNT
TOP FIVE CONTRIBUTORS

TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MSFT	Microsoft Corporation	7.44	14.00	0.99
V	Visa Inc. Class A	6.14	11.28	0.69
ATCO.B-SE	Atlas Copco AB Class B	3.22	17.10	0.52
MA	Mastercard Incorporated Class A	4.09	12.51	0.50
MRVL	Marvell Technology Group Ltd.	2.51	20.37	0.46
GLOBAL LEADERS REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
GOOG	Alphabet Inc. Class C	5.24	-7.88	-0.44
CTRP	Ctrip.com International Ltd Sponsored ADR	2.45	-15.52	-0.41
MMM	3M Company	1.35	-18.00	-0.40
CTSH	Cognizant Technology Solutions Corporation Class	1.48	-14.64	-0.31
SCHW	Charles Schwab Corporation	1.89	-5.65	-0.11

Contribution excludes cash and cash equivalents.

Portfolio Activity

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- Our meetings with **Cognizant** management confirmed it has seen a worsening of its competitive position, with supply-side disruption leading to declining growth in the traditional business. Our biggest fear is always a company that is no longer uniquely serving its customer. Cognizant has been internally focused, and it is not clear how long a turnaround by the new CEO will take, and therefore we decided to allocate elsewhere.

GLOBAL LEADERS REP. ACCOUNT
PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
	None	
DELETIONS		**SECTOR**
MMM	3M Company	Industrials
CTSH	Cognizant Technology Solutions Corporation Class A	Information Technology

Brown Advisory Global Leaders 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	-2.2	-2.8	-9.6	11.0	10.5	2	N/A	303	30,529
2017	35.1	34.0	24.0	N/A	N/A	2	N/A	77	33,155
2016	-0.6	-1.4	8.0	N/A	N/A	2	N/A	38	30,417
2015**	1.2	0.68	-4.4	N/A	N/A	2	N/A	24	43,746

**Return is for period May 1, 2015 through December 31, 2015.

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, 2017. 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 Global Leaders Composite aims to achieve capital appreciation by investing primarily in global equities. The strategy will invest in equity securities of companies that the portfolio manager believes are leaders within their industry or country, as demonstrated by an ability to deliver high relative return on invested capital over time. The minimum account market value required for composite inclusion is $1.5 million.
3. This composite was created in 2015.
4. The benchmark is the FTSE All-World Net Index. This index is a free float market cap weighted index representing the performance of the large & mid cap stocks from the FTSE Global Equity Index Series. The index covers Developed & Emerging Markets. Base Value 100 as at December 31, 1986. "FTSE®", "Russell®", "MTS®", "FTSE TMX®" and "FTSE Russell" and other service marks and trademarks related to the FTSE or Russell indexes are trademarks 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. As of January 1, 2019, the composite benchmark was changed from Russell Global Large-Cap Net Index to the FTSE All-World Net Index. The change was applied retroactively from the composite inception date. The Russell Global Large-Cap Net Index was decommissioned as of 12/31/2018 and is no longer published.
6. 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 applicable (N/A) for periods where there were five or fewer accounts in the composite for the entire period.
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. The standard management fee schedule is as follows: 0.80% on the first $50 million; 0.55% on the next $50 million; 0.45% on the next $50 million; and 0.40% on the balance over $150 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. 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. The 3 year annualized standard deviation is not presented as of December 31, 2015, December 31, 2016 and December 31, 2017 because 36 month returns for the composite were not available (N/A) and the composite did not exist.
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

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Composite performance is based on the Brown Advisory Global Leaders Composite and was obtained through FactSet®. All information and returns shown are as of 12/31/2017 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 and Brown Advisory calculations. This information is based on a representative Global Leaders account and is provided as supplemental information. Account characteristics include 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. The portfolio information provided is based on a representative Global Leaders account and is provided as supplemental information. The information provided in this material should not be considered a recommendation to buy or sell 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. 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 excludes cash and cash equivalents. 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. 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 statement 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. **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. **Return on Invested Capital (ROIC)** is the percentage amount that a company is making for every percentage point over the Cost of Capital/ Weighted Average Cost of Capital (WACC). More specifically the return on investment capital is the percentage return that a company makes over its invested capital. **Sales growth** rate is based on FactSet reported company revenue for the past three years at the end of the current quarter, provided as a historical average. **EV/EBIT** is a financial ratio used to measure a company's return on investment. 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. The portfolio and benchmark returns provided reflect the sum of the returns of the equity holdings in the portfolio and the benchmark, respectively. The returns exclude cash. **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.