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The Advisory

INVESTMENT OUTLOOK FROM BROWN ADVISORY

PORTFOLIO STRATEGY

MARCH 2015

Reemerging Markets

The stock markets of Asia's emerging economies currently offer a rare mix of solid fundamental characteristics and tempting valuations. Discouraged by several years of disappointing results, many investors have not yet seized on potential opportunities.

Several years ago, I was driving with my then 8-year-old daughter, Lauren, on our way to the beach for the weekend. She asked me a simple question: "Daddy, what do you do every day when you go to work?"

I wanted to leave her with the impression that her father did something exciting for a living, so I said that people trust us with their money, and we try to help them turn it into more money. She clearly liked that idea and asked how we do that. I explained that we try hard to buy stocks—or little pieces of companies like Amazon, Apple or Disney—whose prices will go up. Bright kid that she is, she asked why someone would buy the stock for more than we had paid for it.

Here's where the conversation got tricky. I was able to explain the fact that if a company sells more stuff and makes more money, logically it will be worth more. But I had trouble explaining to my daughter the more

CONTINUED ON PAGE 2

BY PAUL CHEW, CFA
Head of Investments

COVER STORY CONTINUED

difficult concept: Sometimes prices can move dramatically simply because people's perceptions change.

A CLOSER LOOK AT ASIA

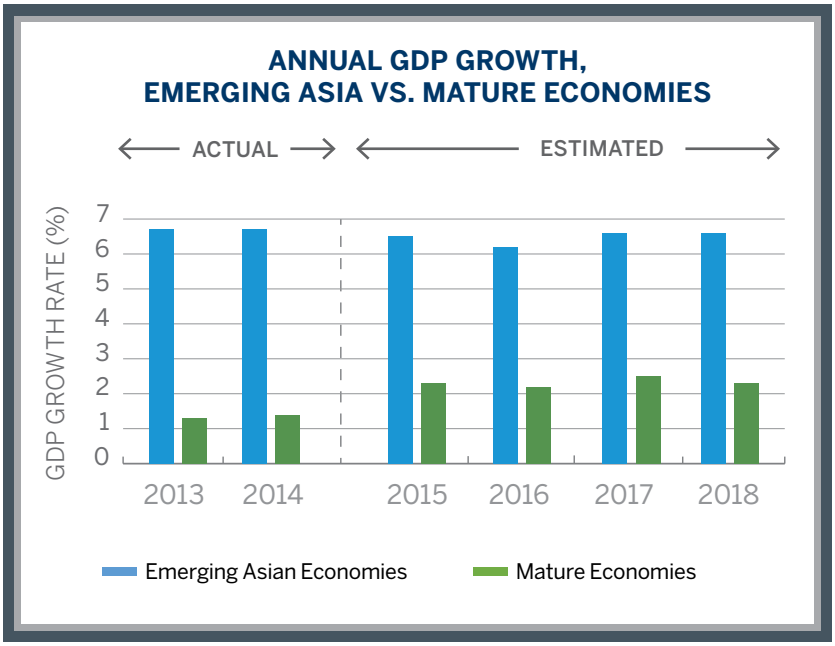
I am reminded of this conversation because while we are fundamental investors at Brown Advisory, we also need to be cognizant of how investors' perceptions are changing and try to get ahead of the wave. One area we are emphasizing in client portfolios is Asian emerging market stocks, not just because we find the fundamentals attractive but because the tide of sentiment hasn't yet shifted—in other words, we perceive tremendous value there at a time when most other investors do not. In portfolios where it is appropriate, we are adding exposure to emerging Asian stocks—an allocation call that we believe differentiates us from many other investment firms.

After an extended period of weak performance—the MSCI Emerging Markets Index generated a disappointing -0.7% five-year annualized return as of the end of February—emerging market stocks are decidedly unpopular. But we think a close look at the fundamentals of Asian emerging markets stocks reveals one of the more compelling investment opportunities available today.

- ***Economic growth.*** The economies among the non-Asian BRIC (Brazil, Russia, India and China) countries have slowed considerably over the past decade—Russia's GDP growth in 2014 was essentially flat, and in Brazil, consensus estimates for 2015 growth are a mere 0.3%, according to the IMF. But economic growth in developing Asia is still expected to exceed 6% through 2018 (see chart below), even with China's GDP growth slowing to 7.4% in 2014, its slowest rate since 1990.
- ***Relief from low oil prices for importers.*** China is the world's largest importer of oil, and India is number four on the list. The Asian region as a whole stands to benefit significantly from cheaper oil, as most Asian emerging market economies are major oil importers. Low energy prices are likely to spur growth by encouraging corporate expansion and by freeing up cash for consumers to spend on other things.
- ***Monetary policy.*** What's more, falling oil prices have eased inflationary concerns in many of these rapidly growing economies. If fears of inflation recede somewhat, the central banks in these countries will have

Rapid Growth

Over the past several years, the news has been filled with stories of slowing growth across emerging markets such as Brazil, Russia and even China. However, economic growth in developing Asia still dwarfs that of developed economies and is expected to do so for years to come.



SOURCE: INTERNATIONAL MONETARY FUND

some breathing room to ease interest rates, a scenario that bodes well for stocks in the region.

▪ ***Valuations.*** Additionally, the years of lackluster emerging market stock returns have brought valuations in the region into an attractive range relative to developed market counterparts (see the chart at right).

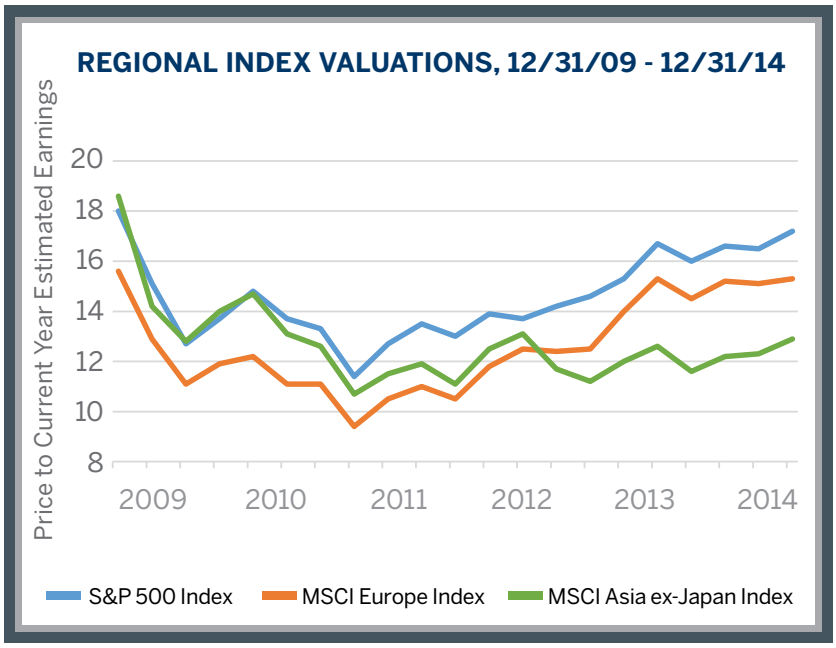
▪ ***Sentiment and momentum.*** A strengthening in Asian economies and stocks could trigger a large influx of foreign capital from both retail and institutional investors. In emerging markets, these flows to and from developed markets tend to have an outsized impact on stock prices due to the vastly different level of market capitalizations between the two regions. Given that developed market investors are relatively cool to Asian equities at the moment, any meaningfully positive shift in sentiment and fund flows that favors the region may benefit valuations considerably.

Of course, investing in a region with fundamental tailwinds, and potentially favorable momentum, only gets us so far. Our goal as always is to not just identify attractive markets, but to find strategies and managers that offer specific expertise in those markets and a differentiated approach. Within emerging market equities, for example, our two primary managers, Somerset and Macquarie, give us complementary Asian strategies. The team we work with at Macquarie follows an all-Asia small-cap strategy with healthy Chinese exposure and a growth tilt, whereas Somerset pursues primarily a large-cap, dividend-oriented approach with minimal weighting in China. Even within these strategies, we see the managers looking to get ahead of investor perception, specifically within the consumer sectors. In recent years, the growth potential represented by the burgeoning middle class in Asia has attracted hordes of investors, and many consumer stocks—especially consumer staples companies—have hit rich valuation levels. In aggregate, these managers were underweight consumer staples at year's end, but they are playing the consumer opportunity through more reasonably valued consumer discretionary stocks as well as stocks with indirect exposure to the consumer, such as life insurance and family-oriented health care firms.

In the end, the question that my daughter asked me in the car is the same question we must ask ourselves every day: Why would someone buy these stocks for more than we paid for them? As always, our investments are based on fundamentals, and in emerging markets we like a lot of what we see—more so than many of our peers—from oil prices to monetary policy to stock valuation. But in this case, we can also appreciate that our portfolio positioning may bring additional rewards if the market comes around to our way of thinking.

Still-Low Valuations

European and U.S. price/earnings ratios have nearly returned to levels last seen in 2009 before the global credit crisis. However, stocks in developing Asia still trade at multiples more than 30% below their 2009 level.



SOURCE:BLOOMBERG

OIL**TANKS**

Unless you've been stranded in the North Sea for the past six months, you have already heard plenty about the 50 percent collapse in the price of oil since mid-2014. We are working on multiple fronts to ensure that client portfolios are positioned for a period of cheap oil.

We asked members of Brown Advisory's equity research, fixed income and private equity groups to share their thoughts on the impact of the oil price plunge. A survey of asset classes provides insights on just how crucial one's time horizon is when considering current options. Our fixed income team, operating within a comparatively short timeframe, can look for opportunistic plays, while private equity investors with a time horizon of 10 years or more can view near-term volatility in oil prices as less of a worry than a chance to snap up assets at bargain prices. Meanwhile, public-equity investors looking out three to five years need to keep in mind that a protracted oil slump would likely harm any energy stock, even one with robust fundamentals.

New Course For OPEC, New Risks For Market

Eric Gordon, CFA Energy Equity Research Analyst

Have you ever experienced that nightmare of sitting down for a test and finding out the exam is written in a language that you do not understand? That describes how I felt on Thanksgiving 2014, the day OPEC announced that it would defend its market share in oil rather than protect prevailing market prices. Until then, the ongoing drop in oil prices made some sense to me. I have spent my career in this "self-correcting" sector, in which oil prices swing back and forth, and for decades OPEC has been one of the dominant forces controlling those price swings, often cutting supply to sustain prices. With its Thanksgiving announcement, OPEC walked away from its role as a price defender, inserting a new layer of uncertainty into oil markets.

The challenge for public equity investors is clear. We seek outperformance by diverging from our benchmark, but only when we feel we have a differentated view. With so much uncertainty already in play in energy markets, OPEC's surprise policy shift has made it increasingly difficult to confidently position portfolios away from our benchmark.

OPEC is the oil market's dominant supplier, and when it chooses to limit supply it has a meaningful impact on prices (see chart on page 6), and in recent history OPEC consistently responded to falling oil prices by cutting supply to re-establish a favorable price level. When oil prices plunged during the credit crisis, OPEC cut daily crude production from close to 33 million barrels in July 2008 to less than 28 million barrels in March 2009—a 15% reduction in nine months. Oil prices stabilized in March 2009 at $50/barrel, and nearly doubled to $78/barrel by the end of 2009. We have come to expect a self-correcting commodity price cycle: High prices lead to demand destruction and oversupply, which cause prices to drop.

Then, low prices prompt a reduction in supply and higher demand, which eventually brings scarcity of supply and higher prices once again.

OPEC likely decided to forgo its role as market stabilizer largely because of Saudi Arabia's setback during the 1980s oil glut. At that time, global markets were awash with oil, partly due to new production from the North Sea. To defend prices, Saudi Arabia cut its production from a high of 10 million barrels per day in 1980 to less than 3 million barrels per day in 1985. With other oil producers maintaining production, Saudi Arabia ended up losing market share and failing to significantly boost prices. A lesson was learned: When new supplies outstrip demand, the best strategy is to defend market share rather than try putting a floor on price. That seems to be OPEC's approach today. Its members, some of the world's lowest-cost producers, hold an estimated 4 million barrels of spare capacity. They can push down prices and weather the subsequent shock for an extended period.

A long period of low prices would drive some U.S. shale-oil producers to reduce output or fail. Some sources of oil that were attractive when oil prices were at $100/barrel may not be worth developing at current prices. Such pricing will test the profits of oilfield service and equipment companies. Already the number of U.S. oil rigs in active service, a leading indicator of demand for oilfield service firms, fell from 1,499 at the end of 2014 to 986 at the end of February for a 34% decline.

Energy stocks have suffered a significant correction, with the S&P 500 Energy Sector Index slumping 19% from June through February. Even so, we believe the market may have further to fall and that investors currently may be too optimisitc based on fresh memories of a rapid recovery in oil prices and industry activity in 2009.

Primed At The Pump

Joshua R. Perry, Fixed Income Credit Analyst

The downturn in oil prices has jarred U.S. credit markets, especially the high-yield sector. Energy has grown considerably as a percentage of the overall high-yield market. The industry has used debt markets liberally to fund shale exploration and production projects in recent years, and as of December 2014, energy made up 16.6% of the entire high-yield bond market.

Since August 2014, investors have grown increasingly concerned about the default risk of bonds tied to the U.S. shale oil boom. From August until the end of December, BB-rated energy bonds (as rated by Standard & Poor's) helped push down overall performance of BB-rated bonds by -1.5%. Meanwhile, the drag from CCC-rated energy bonds accounted for 3.2 percentage points of the -7.7% overall decline in CCC-rated bond performance.

We were underexposed to energy in our portfolios during the recent downturn, which helped our performance last year. Some investors chasing high yields seized on bonds issued by energy firms in recent years. However, we usually shunned these bonds after stress-testing them for the risk of falling oil prices.

Although the current prices of many energy bonds appear attractive, we know that a persistently low oil price would trigger a shakeout. The duration of low prices will be a main force in determining which bonds default. Many issuers, protected by hedging, haven't yet suffered the full brunt of the price decline. If prices rebound in the next few months, many projects may survive, but continued low prices could prompt an acceleration of defaults later this year.

In vetting bonds, we weed out debt with weak fundamentals and companies with insufficient cash flow. We also assess the risk of what investors call "getting primed," which is when a company issues new debt with priority repayment terms over existing bonds. While this usually reduces the value of an existing bond, it may also help to stave off default. This risk is a particular concern today, given that so much recently issued debt is "covenant light," or lacking the traditional agreements that protect creditors.

Ultimately, with energy bonds, we face the question that arises in any credit decision: Would we gain adequate compensation for the full range of risks? So long as we remain vigilant and selective, we are confident we can find bonds offering a favorable blend of reward and risk.

Many investors seem to expect a similar rebound in 2016-17. According to Wall Street consensus estimates, earnings per share will grow next year by 37% at ExxonMobil and 69% at Chevron. Such projections assume a considerable resurgence in oil prices during 2016.

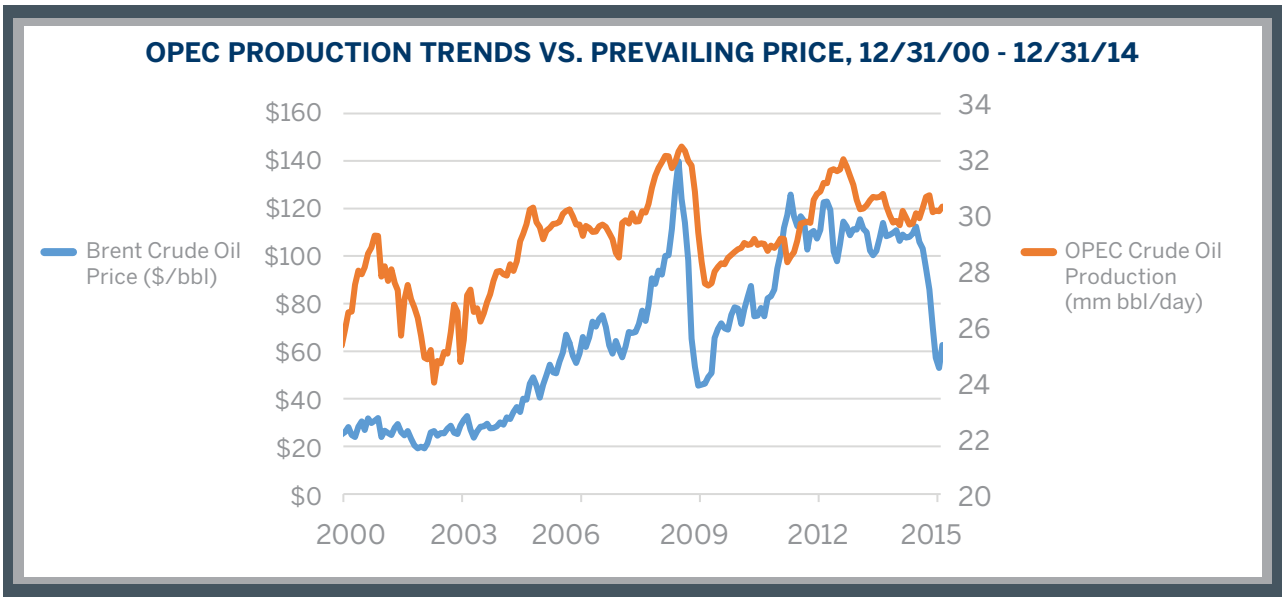
In our equity strategies, we intensively analyze the costs of energy exploration, development and production and own businesses that we deem to be essential long-term players in the global industry. But unpredictable forces like OPEC decisions and oil price volatility can disrupt efforts to accurately determine the value of a business. So we focus on finding energy companies that we believe would succeed in a wide range of oil-price scenarios. We favor executive teams that acknowledge the unpredictability of oil prices and plan accordingly. These are managers that focus on returns on capital when making decisions during periods of uncertainty, as opposed to focusing on absolute growth.

> "ENERGY-SECTOR STOCKS HAVE FALLEN MARKEDLY SINCE THE MIDDLE OF LAST YEAR. EVEN SO, DOWNSIDE RISKS MAY NOT BE FULLY PRICED IN."

Our managers are approaching the energy industry in different ways; for example, in Large-Cap Value we have trimmed energy holdings with high exposure to oil prices, while in Flexible Equity we are actively seeking well-run firms in segments where valuations have been battered. Still, all of our portfolio managers share a concern for the market's heightened risks, as well as confidence that highly differentiated businesses have the best chance of thriving amid high volatility.

Bucking The Cycle

Over time, OPEC has played a major role in reining in oil prices, by cutting supply when prices are low or by ramping up production when prices are high. If the cartel has helped to spur recovery during oil-price downturns in the past, what will happen in this cycle if it refuses to play that role?



SOURCE: BLOOMBERG

Calm After The Storm

Joseph J. Baylin, Private Equity Research Analyst

Since 2009, Brown Advisory has partnered with several leading private equity firms focused on the energy sector, including Riverstone Holdings, EIG Global Energy Partners and EnCap Investments. The managers we work with acknowledge that the oil market slump will harm short-term valuations of some of their investments. Still, they are optimistic about the prospects for new investment opportunities. (Note: investments may be available to qualified purchasers and accredited investors only.)

In theory, volatility in the energy market can benefit private investors. They can snap up distressed businesses, hold assets over market cycles and sell at the optimal time. But the long-term nature of these investments does not change the fact that their near-term valuations can suffer during big swings in oil prices. Conversations with energy managers suggest that portfolio values in our funds are likely to be marked down by a fair amount, depending on the characteristics of the specific portfolio. (As a point of comparison, the S&P 500 Energy Sector Index is down 19% since the end of June.) The extent of the retrenchment will hinge on the extent of any given portfolio's dependence on a single oil-price outcome. Managers with large ownership stakes in single-basin exploration and production (E&P) companies will likely be hit hardest. Diversified managers, as well as those who pursue investments through debt or preferred equity, may be better insulated.

To navigate current market conditions, these managers are generally meeting with each of their portfolio companies to review business plans, revisit drilling economics and reconsider 2015 capital budgets. Expertise with individual project analysis is absolutely essential. Break-even prices for U.S. shale projects range from less than $40/barrel to more than $100/barrel, and Riverstone emphasizes the "nuances [between] basins, counties, townships and even 640-acre sections."

In some cases, managers have sized up the market and halted operations. One manager noted recently that it plans to cut its operating rig count by as much as 50% by the end of March vs. its September 2014 total. Managers are also using a variety of tools to mitigate risk. They are diversifying across geography and asset class, focusing on buying drillable land and starting operations from scratch. They are also hedging oil prices more aggressively and using more moderate debt levels with flexible terms.

Even amid all the efforts to protect assets, these managers see significant opportunity on the horizon. Together they have $29 billion to put to work during the next six years. In our view, available capital still falls short of the opportunity. The "big four" shale plays in the U.S. (Permian, Bakken, Marcellus and Eagle Ford) have additional capacity for over 300,000 new wells and over $3 trillion in new investment, according to Tudor, Pickering, Holt & Co. From $350 billion to $700 billion of that opportunity is suited to private equity firms, according to Riverstone, far exceeding the near–$50 billion in "dry powder" capital that they estimate is held today by energy-focused private equity funds.

Broadly, these managers are looking for "ready to go" investments that may include preassembled assets with proven reserves and active production, or business units of companies seeking to divest noncore operations, such as the midstream assets of an E&P company. Many companies with weak balance sheets may be forced to sell high-quality assets in the future. They also expect the current market to prompt joint ventures between management teams. Capital-market access for many oil and gas firms has dried up, leading cash-starved, third-party producers to partner up and seek capital jointly. Both Riverstone and EIG have said they expect to see opportunities to provide fundamentally strong companies with debt financing at favorable terms.

Although the weak oil price could persist and compel more revaluations of portfolios, these managers are quite enthusiastic about the opportunities to put capital to work effectively.

Out Of Sync

For 15 years, U.S. and European central bankers acted in tandem on monetary policy. Now the Federal Reserve and European Central Bank are heading in different directions—posing both challenges and opportunities for bond and equity investors.

BY THOMAS D.D. GRAFF, CFA
Head of Fixed Income

Following the financial crisis, many regional financial markets moved in sync as central banks across the globe opened the floodgates and released record liquidity. This pattern broke last year, as the U.S. economy strengthened and its bonds and equities surged, while stocks in Europe and many emerging economies struggled against various headwinds.

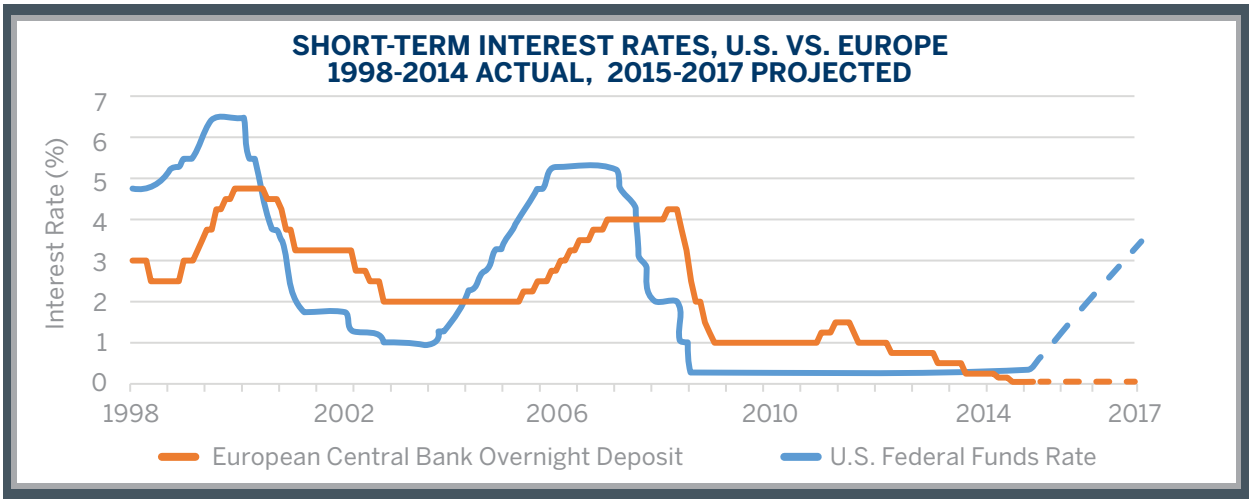
Markets this year will probably break ranks even further as major central banks diverge on policy, with the European Central Bank boosting stimulus and the U.S. Federal Reserve widely expected to begin a tightening. While most major central banks maintain or step up accommodation to rekindle growth, Fed policy makers will probably raise the benchmark interest rate as early as their June meeting in response to gains in employment. This divergence has broken a 15-year period of policy harmony (see chart below) and jolted interest rates and exchange rates. The contrasting monetary policies pose challenges, but also present opportunities, for investors in debt and equity.

DEMAND DU MONDE

The European Central Bank (ECB) in January announced a 1 trillion euro bond-purchase program to revitalize Europe's economy. European stocks soared and European bond yields declined on this news of fresh demand (yields fell below zero for bonds with up to five-year maturities in both

Fork In The Road

Here we see the largely parallel paths that U.S. and European short-term rates have followed over the past 15-plus years and the uncommon divergence that could occur if both the ECB and U.S. Federal Reserve stay on the courses that their recent policy statements have implied.



SOURCE: BLOOMBERG

Germany and the Netherlands). The ECB's program resembles the quantitative easing that the Fed concluded in October after more than quadrupling its balance sheet to $4.5 trillion.

But the impact of the ECB's program may be blunted by crosswinds from across the Atlantic. With Europe easing and the U.S. tightening, investors from around the world have pumped capital into the U.S. bond market, pushing up the dollar and holding down U.S. yields. This occurred even amid expectations for a Fed tightening. Yields on U.S. Treasuries generally fell during the year, with the 10-year Treasury ending 2014 at 2.17%, down from 3.04% the prior year.

We think that the ECB may not generate the stimulus intended from its bond buying, because the money it injects into financial markets through quantitative easing will probably flow to the comparatively more attractive U.S. rather than remain in Europe. The protracted weakening in the euro and sputtering eurozone economy may reinforce the appeal of U.S. markets. Europeans last year clearly saw better yield opportunities in the U.S., which has healthier interest rates and plans to tighten. Compare that with Europe, where interest rates are at or below zero and the ECB plans to ease policy. Capital flows from the eurozone, as well as from oil-dependent economies like Russia, helped fuel the dollar's second-half surge of 13% versus the euro.

To be sure, if the ECB bond-buying plan succeeds and demand for credit increases, eurozone interest rates may rise. Stronger economic growth could spur inflation, which may help restore balance to capital flows and bolster the euro against the dollar.

Our challenge is to understand the impact of two opposing forces: downward pressure on U.S. bond yields from non-U.S. demand vs. upward pressure from Fed rate hikes. The situation presents both risks and opportunities, and we need to be nimble to curb the former while targeting the latter.

SPREADING OUR BETS

So how are we preparing our portfolios for the impact from divergent central bank policies? Our Open Architecture and Asset Allocation team is generally cautious about Europe, unconvinced that quantitative easing can overcome the continent's various challenges such as sky-high government debt, a threat of deflation, aging demographics and uncompetitive labor markets. Yet they do see selective European opportunities, such as export-oriented companies with less reliance on regional economic growth. On the other hand, U.S. equities will likely be subject to the crosswinds of positive employment indicators on one hand, and rising rates and the strengthening dollar on the other. While we envision mildly positive U.S. equity returns, upside may be limited relative to what we have seen in recent years.

> "WE BELIEVE THAT A BROAD MIX OF DURATION, CREDIT AND OTHER EXPOSURES CAN HELP US MAINTAIN AN EVEN KEEL."

Within our fixed-income portfolios, we are using a variety of techniques to balance risk and opportunity. One way is by adjusting the curve positioning of the bonds in our portfolio, meaning our mix of shorter-term and longer-term bonds. We anticipate that the gap in the yield between short-term and long-term bonds will probably shrink. Short-term and intermediate-term rates, particularly those in the three-to-seven year part of the curve, could rise as the Fed tightens. At the same time, we believe that long-term rates could stay steady or fall because of offshore demand for U.S. debt. Consequently, we are following a "barbell" approach at the moment, favoring a mix of longer-term bonds and very short-term or floating-rate bonds, while generally steering clear of three-to-seven year debt.

Of course, long-duration exposure is problematic if long-term rates rise in the U.S., so we use a variety of tools to reduce our exposure to that risk. In our Strategic Bond strategy, we can hedge against interest-rate risk directly, while more broadly we are seeking positions in sectors that are less correlated with interest rates. This includes municipals or corporates where bonds are linked more closely with credit risk, or mortgages where prepayment risk has a major impact on performance.

Through this diverse exposure we aim not to be too tied to any single macroeconomic outcome. The policy and market forces we highlight here will probably collide unpredictably during the next 12 to 18 months, and we believe that a portfolio with a broad mix of duration, credit and other exposures is the best way for us to maintain an even keel.

Smooth Exit

Over the next few years, a glut of family-owned businesses will change hands. The biggest determinant of whether an exit will be successful from a business-owner's point of view is simply this: planning.

BY JOHN DEVINE
Strategic Advisor

We are on the cusp of a massive transfer of ownership of small businesses in the U.S., and according to a number of studies, many owners are not well-prepared. According to research firm Wealth-X, 54% of first-generation family business owners in the U.S. are 60 or older. That means that a staggering number of entrepreneurs are facing looming decisions around business exits and succession plans. Many business owners have planned their exits, but what of those who haven't? A study from Heidrick & Struggles and Stanford University found that 39% of companies claim to have no viable internal candidates to replace their CEOs. Surprisingly, Mass Mutual reports that one-third of business owners do not even have a will.

Consider that the total net worth of closely held business owners in the U.S. is about $1.3 trillion, according to Wealth-X. The tax bill of an inefficient exit can run up to 50%, so there are hundreds of billions of dollars on the line.

Given those stakes, proper planning for a business exit is of paramount importance for any business owner. While every situation is different, there are a number of key principles that can help guide the planning process in nearly every case. First, plans take time. A good plan begins at least three years in advance of a potential sale. Second, planning is a team game, often involving accountants, attorneys, investment bankers and other advisors, in addition to family members. Finally, business-exit planning is best conducted in three phases—simply stated, "before," "during" and "after" the sale—and requires business owners to constantly revisit and rebalance their personal goals and their desired business legacy.

PRIOR TO PURSUING AN EXIT

On a personal level, what do I want out of the sale of my business? To preserve my lifestyle? To have time for other endeavors? To transfer assets to my children? To support philanthropic endeavors or perhaps even to create my own charitable foundation? These are some of the questions that we hope to address with all of our private client business owners, resulting in a long-term asset allocation plan that targets their objectives. It is striking how often entrepreneurs are so focused on their businesses that they never step back to think about their personal goals (financial and nonfinancial) until it is too late. The truth is, having clarity about these goals can help us get the planning infrastructure in place early, paying dividends down the line when the business is sold.

For example, many of our clients have charitable aims in mind with the proceeds from the sale of their business. In such cases, a Charitable Remainder Trust (CRT) may often be an ideal tool for planning purposes. If we fund a CRT with company stock prior to a binding agreement to sell, that stock won't be subject to capital gains tax, leaving more money available for the client and for the charity. However, there needs to be certainty that the transaction will close. Gifts to CRTs may also create an attractive current-year tax deduction equal to the fair market value of the stock. Note that timing is everything: Ideally, these trusts are set up well in advance of any business transaction so there is no concern about getting them in place during the rush of negotiations and to ensure that they are funded before the final sale agreement to preserve their tax benefits.

Another example: One of our clients, a husband and wife team, became concerned about trusts they had set up for their children years earlier with shares of their family company's stock. The company turned out to be so successful that the children's trusts were soon valued at more than $20 million—far more than they anticipated—and they were uncomfortable with the fact that the children could begin accessing these funds as early as age 25. The solution for this family was a Family Limited Partnership (FLP). This created a family pool for investing and

began what turned out to be a highly productive long-term experience for the family. What's more, this FLP may also function as a tax-efficient vehicle for passing their wealth to future generations, so the original objective of the children's trusts would still be achieved.

EVALUATING OFFERS

As the appropriate time for a business sale draws nearer, our attention shifts a bit, from the hypothetical to the practical. While we defer to other experts regarding matters such as business valuation, we work closely with clients and their team of advisors during this period to consider the terms of the deals they are considering and to see if there are more favorable options open to them. We believe that this team approach will help optimize their success. One key question is whether one should seek cash or stock. Sales for cash are almost always immediately taxable, while stock deals offer more tax flexibility; however, a deal that results in a large, concentrated stock position offers its own challenges. Often we help clients evaluate the merits of a lump-sum payment vs. installment sales or earn-out clauses, considering factors such as whether we think that the business can grow more rapidly than investment markets, and the timing of the clients' cash flow needs over the next five, 10, or 20 years and how those coincide with expected cash flows from an extended payout schedule.

AFTER THE SALE

Finally, the transaction is complete. At this stage we fully implement the carefully laid plans we have developed with our clients over the course of many months and years, working with the rest of the team to put liquid assets to work across the series of accounts and trusts set up in preparation for this day. From here, we can fine-tune the portfolios and trust structures over time to stay on track with their evolving goals. For those who still have the entrepreneurial itch, we offer occasional direct private investments in small and mid-sized firms that give clients the opportunity to play a variety of roles, from active majority owner to passive minority investor.

Even from this brief discussion, we hope that one can get a sense of the amount of time and thought required for a business owner to successfully navigate from hypothetical hopes and dreams to a fully realized investment strategy and long-term financial plan. With so much of the value of the business at stake, business owners will be well served by putting in the necessary time and thought well in advance of the sale.

Yesterday, Today and Tomorrow

Business owners need to prepare for crucial decisions and action steps before, during and after the sale of their business in order to fully realize the value they have created in that business over time.

PRIOR TO PURSUING A SALE	WHILE NEGOTIATING FINAL TERMS	SALE OF COMPANY	AFTER THE LIQUIDITY EVENT
~2-3 YEARS BEFORE	*<1 YEAR BEFORE*		*ONGOING*
Clearly articulate goals Examine financial (e.g., lifestyle, wealth transfer) and non-financial (e.g., philanthropy, family dynamics, business legacy) considerations. **Lay trust groundwork** Create charitable, wealth transfer, other trusts in preparation for future liquidity **Develop investment plan** Asset allocation and portfolio structure to meet long-term income and growth targets	**Evaluate deal structures** For example, cash vs. stock, lump sum vs. installment sale **Finalize post-sale investment plans** Tighten up proposed allocation, select managers, ensure that proper trusts are in place		**Fully implement long-term plan** Deploy sale proceeds in recommended portfolio investments Take next step along non-investment dimensions—preparing children for wealth transfer, ramping up philanthropic activity, etc.

Brown ADVISORY
Thoughtful Investing.

OFFICE LOCATIONS

BALTIMORE
(410) 537-5400
(800) 645-3923

WASHINGTON
(240) 200-3300
(866) 838-6400

LONDON
+44 203-301-8130

NEW YORK
(212) 871-8550

BOSTON
(617) 717-6370

CHAPEL HILL, NC
(919) 913-3800

WILMINGTON, DE
(302) 351-7600

brownadvisory.com
brownadvisory@brownadvisory.com

The *MSCI Emerging Markets Index* captures large-cap and midcap representation across 21 Emerging Markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country. The *MSCI Europe Index* captures large and mid-cap representation across 15 developed markets in Europe, covering approximately 85% of the European developed-market investable opportunity set. The *MSCI Asia ex-Japan Index* consists of the following 10 developed and emerging market country indexes: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. 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. The *S&P 500 Energy Sector Index* comprises those companies included in the S&P 500 Index that are classified as members of the GICS® Energy sector. One cannot invest directly in an index.

Alternative investments may be available to qualified purchasers and accredited investors only.

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