

Equity Income

QUARTERLY STRATEGY UPDATE

Fourth Quarter 2018

B Brown ADVISORY
Thoughtful Investing.



BRIAN E.GRANEY, CFA
Portfolio Manager

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P 500® INDEX
3 MOS.	-10.89	-11.02	-13.52
1 YR.	-4.96	-5.49	-4.38
3 YR.	8.46	7.85	9.26
5 YR.	6.30	5.69	8.49
ITD (09/30/2010)	10.92	10.29	12.34

The composite performance shown above reflects the Brown Advisory Equity Income 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

	EQUITY INCOME REP. ACCT.	S&P 500 INDEX
Weighted Avg. Market Cap.	\$180.9B	\$200.8B
P/E Ratio (FY2 Est.)	14.4x	14.4x
Active Share	75.8%	
Dividend Yield	3.0%	2.1%
Portfolio Beta (Since Inception)	0.9	--
Return on Equity (ROE)	20.0%	20.1%
Portfolio Turnover (3-Yr.Avg.)	11.8%	--

REP ACCOUNT. TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Cash & Equivalents	5.5
Microsoft Corp.	5.5
Merck & Co, Inc.	4.3
Cisco Systems, Inc.	4.1
Apple, Inc.	3.8
Automatic Data Processing, Inc.	3.2
Novartis AG Sponsored ADR	3.2
JPMorgan Chase & Co.	3.2
McDonald's Corp.	3.0
Johnson & Johnson	2.9
TOTAL	38.7

Review & Outlook

U.S. stocks dropped sharply in the fourth quarter, reversing the meaningful gains made in the third quarter and through the first nine months of the year. Worries about rising interest rates and the impact of U.S. tariffs on trade formed a year-end backdrop of slowing future earnings growth. As a result, there was a stark shift in investor sentiment compared to just months earlier. In line with its historical goal of providing reliable downside protection, the strategy outperformed the benchmark S&P 500® Index during the broad market sell-off in the fourth quarter. Despite this outperformance, the strategy still underperformed the benchmark slightly for the year.

The health care and information technology sectors had the best relative performance for the portfolio during both the fourth quarter and the full year. Both of these sectors gained ground during a year in which only four of the 11 sectors in the benchmark posted positive returns. Health care was the best-performing sector for the full year on an absolute return basis; this was in large part attributable to strong gains from pharmaceutical holding **Merck**, which posted a string of positive quarterly earnings results through the year as its important cancer drug Keytruda continued gaining market share with doctors and patients. In the information technology sector, holdings such as **Microsoft** and **Cisco** Systems were standout performers. During the year, the financial results of both companies benefited from a healthy corporate spending environment, as companies worldwide devoted more resources to their information technology systems.

In comparison, industrials and consumer staples were the two worst-performing sectors for the strategy for the full year, and several individual holdings declined meaningfully in the fourth quarter. Among industrials, **United Technologies** fell after announcing that it will separate into three companies before the end of 2020. Similar to the pending breakup of fellow holding **DowDuPont**, the United Technologies separation has the potential to create meaningful long-term value for patient shareholders. However, the announcement came at a time when investor patience was seemingly in very short supply.

In consumer staples, tobacco stocks **Altria** and **Philip Morris International** fell amid signs of intensifying competitive pressures on their businesses. The rapid U.S. market acceptance of e-cigarette devices made by JUUL prompted Altria to shift its business strategy abruptly in the fourth quarter, and the company made a large investment in JUUL. This dramatic move effectively changed the risk profile of Altria's overall business, making future shareholder returns more dependent on the results of its large investments. Due to this shift, the strategy reduced its position in Altria during the quarter. Philip Morris International was also reduced, as the new Altria-JUUL partnership will likely lead to increased e-cigarette competition in Philip Morris' international markets.

Throughout 2018, the strategy maintained a broad balance among the various economic sectors. A notable exception was the lack of exposure to utilities, which negatively impacted performance in the fourth quarter. Within each sector, the investment preference has been toward diversified industry leaders with reliable cash flows, above-average dividend growth rates versus absolute high dividend yields, and reasonable valuations equal to or below the market on various measures. These generally defensive investment characteristics likely contributed to the portfolio's relative outperformance during the volatile fourth quarter.

The strategy's name turnover had been relatively low through the early part of 2018 but picked up considerably later in the year. The market sell-off created new investment opportunities as price/earnings multiples fell across most industry sectors. New additions in the fourth quarter included **Comcast** in communication services, **Tiffany & Co.** in consumer discretionary and **Gilead Sciences** in health care. All three investments share common characteristics, such as reasonable valuations, above-average dividend yields, strong balance sheets and cash flows, and attractive future growth potential.

The strategy has focused on such attributes for all of its investments since inception. Remaining patient and disciplined throughout the early part of 2018 paid off later in the year, as market volatility increased and created a much better environment for long-term investors looking to buy high-quality companies at reasonable prices. As always, the strategy's ultimate goal is to build a portfolio of investments that can generate a reliable stream of growing income over time while also offering a level of downside protection during those periods when it is needed. **B**

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

Sector Diversification

- Our weighting in communication services rose during the quarter as we added Comcast to the portfolio. The strategy is currently underweight in the communication services sector after having no exposure previously.
- Our weighting in consumer staples fell during the quarter as we reduced the position sizes of Altria and Philip Morris International. Despite these trims, the strategy remains overweight in the consumer staples sector.
- Our health care weighting increased during the quarter as we added Gilead Sciences to the portfolio and increased the position size of **Johnson & Johnson**. The strategy is currently overweight in the health care sector after having been underweight previously.
- We have no exposure to the utilities sector due to generally unattractive valuations and limited potential for dividend growth rates in the sector.

SECTOR	EQUITY INCOME REP. ACCOUNT (%)	S&P 500® INDEX (%)	DIFFERENCE (%)	EQUITY INCOME REP. ACCOUNT (%)	
	Q4 '18	Q4 '18	Q4 '18	Q3 '18	Q4 '17
Communication Services	2.07	10.12	-8.06	--	--
Consumer Discretionary	11.68	9.94	1.74	12.70	12.27
Consumer Staples	8.67	7.41	1.26	11.50	13.78
Energy	6.14	5.32	0.82	6.47	5.21
Financials	14.77	13.31	1.46	14.90	17.67
Health Care	16.37	15.54	0.82	13.53	12.61
Industrials	6.39	9.20	-2.81	6.64	9.35
Information Technology	22.53	20.12	2.41	23.39	20.24
Materials	4.26	2.73	1.52	3.95	2.03
Real Estate	7.12	2.96	4.16	6.93	6.85
Utilities	--	3.34	-3.34	--	--

Quarterly Attribution Detail by Sector

- Health care was the biggest relative contributor to performance during the quarter because of favorable stock selection.
- Information technology, financials and consumer discretionary also contributed to relative performance because of favorable stock selection.
- The strategy's lack of exposure to the utilities sector detracted from comparative performance. Utilities were the best performer within the benchmark during the quarter and the only sector to generate a positive return.

SECTOR	EQUITY INCOME REP. ACCOUNT		S&P 500 INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	0.23	-2.70	9.98	-13.18	-0.07	-0.04	-0.11
Consumer Discretionary	11.69	-14.27	9.91	-16.43	-0.05	0.25	0.19
Consumer Staples	11.75	-8.99	7.28	-5.19	0.47	-0.47	--
Energy	6.34	-21.38	5.69	-23.80	-0.08	0.19	0.10
Financials	14.92	-11.24	13.46	-13.08	0.01	0.28	0.29
Health Care	14.39	-0.66	15.29	-8.86	-0.03	1.13	1.10
Industrials	6.56	-16.62	9.43	-17.29	0.13	0.02	0.15
Information Technology	22.90	-14.51	20.34	-17.34	-0.09	0.67	0.58
Materials	4.12	-9.50	2.62	-11.52	0.04	0.09	0.13
Real Estate	7.09	-7.51	2.85	-3.82	0.40	-0.26	0.14
Utilities	--	--	3.15	1.35	-0.41	--	-0.41
Total	100.00	-11.36	100.00	-13.52	0.29	1.87	2.15

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Quarterly Contribution to Return

- Drugmaker Merck & Co. rose after reporting quarterly earnings and margins ahead of expectations. The company also raised its earnings guidance for the fourth quarter and announced a 15% dividend increase.
- Quick-service restaurant company **McDonald's** gained after reporting earnings that were ahead of expectations because of strong sales in international markets. In addition, the company's U.S. operations showed signs of improving results because of innovations such as in-store kiosks for ordering, expanded delivery and new fresh beef menu items.
- Wireless communications tower company **American Tower** rose after reporting strong quarterly results. In the important U.S. market, the company has benefited as all wireless carriers have increased their infrastructure spending ahead of the coming rollout of 5G network service initiatives.
- Property and casualty insurer **Erie Indemnity** gained after reporting strong quarterly earnings and margins because of rising written premium volume for its insurance products. Additionally, the company announced a 7% dividend increase.
- Semiconductor maker **Broadcom** advanced after reporting strong quarterly sales and earnings results. The company issued a positive outlook for the coming fiscal year and raised its dividend by an impressive 51%.
- iPhone maker **Apple Inc.** dropped amid indications that its latest generation of iPhones are selling at a slower rate than expected. As a result, estimates for revenue and earnings growth over the coming year have been reduced. Longer term, Apple remains well-positioned to benefit and grow from its large global installed base of dedicated iPhone users.
- Timber and wood products company **Weyerhaeuser** fell after reporting lower-than-expected quarterly results because of falling prices for its products. Weaker-than-expected new home construction in the U.S. and fewer exports have hurt prices for finished lumber and saw logs. We expect the pricing environment will improve over the longer term despite the temporary setback.
- Aerospace and commercial services firm United Technologies dropped after announcing a plan to split into three separate companies by the end of 2020. Until then, the company will primarily focus on integrating its recent acquisition of Rockwell Collins. Longer term, we see the planned breakup creating value for shareholders. The company also raised its dividend 5% during the quarter.

EQUITY INCOME REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MRK	Merck & Co., Inc.	4.15	8.49	0.31
MCD	McDonald's Corporation	3.72	6.80	0.21
AMT	American Tower Corporation	2.16	9.45	0.16
ERIE	Erie Indemnity Company Class A	2.27	5.24	0.12
AVGO	Broadcom Inc.	1.97	4.15	0.11

EQUITY INCOME REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
AAPL	Apple Inc.	4.66	-29.88	-1.50
WY	Weyerhaeuser Company	2.18	-31.40	-0.77
UTX	United Technologies Corporation	2.91	-23.41	-0.73
AMP	Ameriprise Financial, Inc.	2.30	-28.81	-0.72
SU	Suncor Energy Inc.	2.11	-27.10	-0.63

- Financial services company **Ameriprise Financial** fell amid worries about the potential outlooks for its long-term care insurance and annuity businesses. Those units are secondary to the company's focus on its core asset and wealth management business, which continues growing. Thanks to its strong capital position, Ameriprise continued returning meaningful cash to shareholders annually through dividends and share repurchases.
- Canadian oil producer and refiner **Suncor Energy** dropped amid a general decline in oil prices during the quarter. Despite the decline in commodity prices, we believe that Suncor remains well-positioned to generate strong cash flows in the future and is committed to returning cash to shareholders through higher dividends.

EQUITY INCOME REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
CMCSA	Comcast Corporation Class A	Communication Services
GILD	Gilead Sciences, Inc.	Health Care
TIF	Tiffany & Co.	Consumer Discretionary
DELETIONS		SECTOR
	None	

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Brown Advisory Equity Income Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (\$USD Millions)	GIPS Firm Assets (\$USD Millions)
2017	21.5	20.8	21.8	8.7	9.9	49	0.3	289	33,155
2016	10.5	9.9	12.0	9.7	10.6	44	0.2	252	30,417
2015	-4.4	-5	1.4	10.1	10.5	53	0.2	331	43,746
2014	11.3	10.7	13.7	8.3	9.	72	0.3	446	44,772
2013	29.2	28.5	32.4	8.6	11.9	84	0.3	450	40,739
2012	12.8	12.0	16.0	NA	NA	67	0.2	350	26,794
2011	11.6	11.0	2.1	NA	NA	43	0.2	120	19,962
2010*	6.5	6.5	10.8	NA	NA	8	N/A	22	16,859

*Return is for period October 1, 2010 through December 31, 2010.

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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 Equity Income Composite includes all discretionary portfolios invested in the equity income strategy. The strategy invests primarily in U.S. equities that exhibit above-average dividend yields, dividend growth and return on equity. The minimum account market value required for composite inclusion is \$1.5 million.
3. This composite was created in 2010.
4. The benchmark is the S&P 500® Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks that is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of dividends and do not reflect any fees or expenses. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers. Standard & Poor's, S&P®, and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global Inc..
5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the composite for the entire period.
6. Gross-of-fees performance returns are presented before management fees but after all trading commissions. 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 \$10 million; 0.65% on the next \$15 million; 0.50% on the next \$25 million; and 0.40% on the balance over \$50 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.
7. 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 three-year annualized standard deviation is not presented as of December 31, 2010, 2011 and 2012 because 36 month returns for the composite were not available (N/A).
8. Valuations and performance returns are computed and stated in U.S. dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.
10. Past performance does not indicate future results.
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