

Equity Income

QUARTERLY STRATEGY UPDATE

First Quarter 2019

B Brown ADVISORY
Thoughtful Investing.



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Portfolio Manager

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	S&P 500® INDEX
3 MOS.	14.14	14.04	13.65
1 YR.	11.81	11.24	9.50
3 YR.	12.14	11.52	13.51
5 YR.	8.90	8.29	10.91
ITD (09/30/2010)	12.31	11.68	13.65

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.	\$205.6B	\$230.7B
P/E Ratio (FY2 Est.)	15.8x	15.5x
Active Share	75.9%	--
Dividend Yield	2.7%	1.9%
Return on Equity (ROE)	23.7%	22.6%
Portfolio Turnover (3-Yr.Avg.)	9.4%	--

REP ACCOUNT. TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corp.	5.7
Cash & Equivalents	5.0
Cisco Systems, Inc.	4.5
Merck & Co, Inc.	4.1
Apple, Inc.	4.0
Automatic Data Processing, Inc.	3.4
Novartis AG Sponsored ADR	3.2
JPMorgan Chase & Co.	2.9
W.P. Carey, Inc.	2.9
McDonald's Corp.	2.8
TOTAL	38.5

Review & Outlook

U.S. stocks rebounded strongly in the first quarter of the year and recouped much of the ground that they lost during the market's sharp sell-off in the fourth quarter of 2018. In short, a bad end to one year was quickly followed up by a good start to the new year. For the period overall, the strategy kept pace with the strong general advance in stock prices and slightly outperformed its benchmark S&P 500® Index.

All of the sectors within the benchmark posted gains during the first quarter. This situation was almost the mirror image of the previous quarter, when all but one sector (the utilities sector) posted losses. The benchmark's best-performing sector was information technology, and the strategy's holdings in that sector outperformed during the period. Large holdings, such as **Microsoft** and **Cisco Systems**, continued to report strong sales and earnings results because of a persistent spending tailwind for information technology and systems infrastructure by corporate customers around the globe. Other IT holdings, such as **Automated Data Processing** and **Accenture**, reported strong demand for their services as well. Higher margins and impressive free cash flow growth in the most recent quarter propelled both of those stocks higher.

Health care was the weakest-performing sector for the benchmark during the period, after posting solid performance throughout much of 2018. In particular, holdings **AbbVie** and **Medtronic** both declined early in the quarter. In AbbVie's case, the drugmaker guided to weaker-than-expected results this year from its key drug Humira in both the U.S. and international markets. As for Medtronic, the medical devices company forecasted a slightly less rosy near-term outlook for its cardiovascular products. We judged the weaker outlook to be a temporary setback for Medtronic and increased our position size in the company. In contrast, AbbVie's disappointing outlook had a more meaningful negative impact on our long-term investment thesis in the stock. As a result, we reduced our weighting in AbbVie during the quarter.

Industrials were the strategy's worst relative performing sector during the period, primarily because of a large decline in holding **Healthcare Services Group**. For several decades, the company has carved out a growing and profitable niche for itself as an outsourced provider of housekeeping and dietary services to long-term care facilities. But the company's margins have been pressured in recent quarters as it has struggled to digest a one-time large influx of new business. In addition, the Securities and Exchange Commission has been examining some of the company's financial reporting practices. In March, the company delayed its 10-K annual report to allow for the completion of an internal review of its practices, and the delay led to a meaningful decline in the stock as investors feared the worst. We added to our position in Healthcare Services Group during the quarter on the view that the company's margins and financial results would improve as the year goes along and that the ultimate impact from the SEC review would be minimal.

There were no additions or deletions to the strategy during the first quarter. Looking ahead to the second quarter, a sequence of corporate actions and events will impact several of the strategy's holdings. In April, **DowDuPont** will begin its separation into three independent entities with the spin-off of its primary chemical business, Dow Inc. The remaining entity will then divide into two businesses, specialty materials company DuPont and agricultural products provider Corteva, by the end of June. For DowDuPont, the creation of three companies that should be leaders in their own respective industries is expected to unlock significant value for shareholders over the long term.

Also in April, pharmaceutical holding **Novartis** should spin off its Alcon eye care business to shareholders. And in May, apparel manufacturer **VF Corp.**, intends to spin off its denim apparel business into a new company to be called Kontoor Brands. As we assess these pending spin-offs, we will keep in mind the strategy's preference for investing in industry-leading companies with reliable cash flows, above-average dividend yields and the potential for long-term dividend growth. Focusing on these investment attributes remains central to the strategy's goal of building the best possible portfolio of high-quality investments with better-than-benchmark yield and lower volatility. **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 information technology weighting increased because of an increase in stock prices. The strategy remains overweight to information technology, and it is the largest overall sector exposure for the portfolio.
- Our health care weighting decreased, as the weighting of pharmaceutical holding AbbVie was reduced during the quarter. Despite this action, the strategy remains overweight to the health care sector.
- The strategy is currently underweight to the communication services sector. Many of the largest companies in the sector do not pay dividends to investors and, as a result, do not qualify for inclusion in the strategy.
- 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 (%)	
	Q1 '19	Q1 '19	Q1 '19	Q4 '18	Q1 '18
Communication Services	2.12	10.11	-7.99	2.07	--
Consumer Discretionary	11.79	10.15	1.65	11.68	12.23
Consumer Staples	8.39	7.33	1.06	8.67	13.33
Energy	6.36	5.43	0.94	6.14	4.78
Financials	14.63	12.69	1.94	14.77	16.46
Health Care	15.18	14.57	0.60	16.37	12.67
Industrials	6.27	9.48	-3.21	6.39	8.93
Information Technology	23.74	21.19	2.55	22.53	21.50
Materials	3.95	2.64	1.32	4.26	2.96
Real Estate	7.56	3.09	4.47	7.12	7.14
Utilities	--	3.33	-3.33	--	--

Quarterly Attribution Detail by Sector

- Financials was the biggest relative contributor to performance during the quarter because of favorable stock selection. Real estate, information technology and energy also contributed to relative performance.
- Industrials was the biggest detractor from performance during the quarter because of unfavorable stock selection, most notably due to a large price decline from holding Healthcare Services Group. Materials also detracted from performance because of unfavorable stock selection.
- For the Index overall, information technology was the best-performing sector during the quarter, and health care was the worst-performing sector. All 11 sectors of the Index had positive performance during the quarter.

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	2.10	17.42	10.21	14.09	-0.04	0.07	0.03
Consumer Discretionary	11.70	16.33	10.02	15.76	0.05	0.04	0.08
Consumer Staples	8.36	11.94	7.22	12.01	-0.01	-0.02	-0.03
Energy	6.54	19.92	5.46	16.45	0.03	0.23	0.27
Financials	15.17	14.79	13.30	8.55	-0.08	0.91	0.83
Health Care	15.41	6.63	14.96	6.58	-0.02	-0.09	-0.11
Industrials	6.54	3.64	9.51	17.20	-0.07	-0.86	-0.94
Information Technology	22.66	21.22	20.37	19.86	0.13	0.25	0.38
Materials	4.11	7.03	2.68	10.29	-0.04	-0.12	-0.16
Real Estate	7.40	22.67	3.01	17.54	0.17	0.35	0.52
Utilities	--	--	3.26	12.23	0.07	--	0.07
Total	100.00	14.66	100.00	13.71	0.19	0.76	0.94

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Quarterly Contribution to Return

- Networking equipment provider Cisco Systems rose after reporting better-than-expected quarterly sales and earnings. The company also raised its dividend 6%. Cisco is expected to continue to increase its dividend in future years at a rate in line with its earnings growth rate.
- Software maker Microsoft gained after reporting earnings that were in-line with expectations, despite a slowdown in sales of its Windows and Office software. The company's cloud-related software for businesses continued to perform well, however, in terms of sales growth and margin expansion.
- Property and casualty insurer **Erie Indemnity** rose after reporting strong quarterly earnings that were ahead of expectations. We trimmed our position slightly amid the strength in the stock price during the quarter.
- iPhone maker **Apple Inc.** recovered after the stock performed poorly during the fourth quarter of 2018. While the company continues to see softer demand for its latest iPhones, margins are expanding for its growing services-related business.
- Payroll and business services provider Automatic Data Processing rose after reporting quarterly revenues and earnings that were well ahead of expectations. The company's margins are expanding, as its updated and more efficient suite of platform technologies for customers is allowing ADP to reduce its long-term customer service costs.
- Nursing home outsourced services provider Healthcare Services Group dropped after delaying its 10-K annual report in order to complete an internal review of potential financial reporting issues, which were previously raised in a subpoena from the Securities and Exchange Commission. The company later filed its 10-K annual report without any changes to its previous financial statements. However, the SEC review of the company's practices is ongoing. We added to our position during the quarter on the view that any potential reporting issues would be minimal and resolved in the near term.
- Drugmaker AbbVie declined after forecasting lower-than-expected revenues for its key drug Humira both in the U.S. and abroad this year. We reduced our position size in the company during the quarter because of the outlook for lower sales and earnings growth this year and beyond.
- Global beverages company **Coca-Cola** declined after commenting at an industry conference that it no longer expects to meet its medium-term margin performance target due to the impact from a recent acquisition and shifts in foreign exchange rates.
- Medical devices maker Medtronic commented at an industry conference early in the year that its cardiovascular products could see slightly weaker growth than expected in the near term. We added to our position amid the temporary stock price decline because the company's overall longer-term growth outlook continues to look favorable.
- Diversified chemical and specialty products company DowDuPont reported disappointing quarterly earnings. In particular, its Dow chemical business saw margins decline late in the fourth quarter of 2018 due to global macroeconomic concerns.

EQUITY INCOME REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
CSCO	Cisco Systems, Inc.	4.53	25.60	1.09
MSFT	Microsoft Corporation	5.82	16.62	0.94
ERIE	Erie Indemnity Company Class A	2.73	34.81	0.86
AAPL	Apple Inc.	3.99	20.94	0.78
ADP	Automatic Data Processing, Inc.	3.48	22.47	0.74

EQUITY INCOME REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
HCSG	Healthcare Services Group, Inc.	2.20	-17.49	-0.45
ABBV	AbbVie, Inc.	1.38	-11.48	-0.23
KO	Coca-Cola Company	2.69	-0.17	-0.01
MDT	Medtronic plc	2.42	0.68	0.02
DWDP	DowDuPont Inc.	1.96	0.37	0.03

Portfolio Activity

- There were no additions or deletions to the strategy during the quarter.

EQUITY INCOME REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
None		
DELETIONS		SECTOR
None		

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

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.

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 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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Composite performance is based on the Brown Advisory Equity Income Composite and was obtained through FactSet®. All information and returns shown are as of 3/31/2019 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet. This information is based on a representative Equity Income account and is provided as supplemental information. Account characteristics exclude cash and cash equivalents; top 10 holdings list includes cash and cash equivalents. FactSet® is a registered trademark of FactSet Research Systems, Inc.

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Please see composite disclosure statements 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. FactSet® is a registered trademark of FactSet Research Systems, Inc. The **Market Capitalization** refers to the aggregate value of a company's publicly-traded stock. **Weighted Average Market Capitalization** of a portfolio equals 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). **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. **Active Share** measures the percentage of holdings in a manager's portfolio that differ from those in the benchmark index. An active share of 0% means that the portfolio is identical to the benchmark, while an active share of 100% means that the portfolio has no common holdings with the benchmark. **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. **Return on equity (ROE)** is equal to a company's net income for a full fiscal year, divided by total shareholder equity. 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.