

Brown Advisory Flexible Equity Strategy

We believe that our strategy of investing in companies with attractive business economics, shareholder-oriented managements and the potential for future growth, purchased at bargain prices, can outperform the S&P 500 Index with less risk over a full market cycle.



February 2019 Monthly Report

Performance Contributors

TOP FIVE CONTRIBUTORS*

| TICKER | NAME | SECTOR | AVG. WEIGHT (%) | MONTHLY RETURN (%) | CONTRIBUTION TO RETURN (%) |
|--------|--|------------------------|-----------------|--------------------|----------------------------|
| V | Visa Inc. Class A | Information Technology | 6.30 | 9.90 | 0.60 |
| MA | Mastercard Incorporated Class A | Information Technology | 5.36 | 6.46 | 0.34 |
| LOW | Lowe's Companies, Inc. | Consumer Discretionary | 3.64 | 9.29 | 0.33 |
| MSFT | Microsoft Corporation | Information Technology | 3.89 | 7.74 | 0.29 |
| BABA | Alibaba Group Holding Ltd. Sponsored ADR | Consumer Discretionary | 2.61 | 8.63 | 0.22 |

BOTTOM FIVE CONTRIBUTORS*

| TICKER | NAME | SECTOR | AVG. WEIGHT (%) | MONTHLY RETURN (%) | CONTRIBUTION TO RETURN (%) |
|--------|---------------------------------|------------------------|-----------------|--------------------|----------------------------|
| UNH | UnitedHealth Group Incorporated | Health Care | 3.11 | -10.36 | -0.33 |
| BKNG | Booking Holdings Inc. | Consumer Discretionary | 3.13 | -7.41 | -0.24 |
| FB | Facebook, Inc. Class A | Communication Services | 3.74 | -3.14 | -0.12 |
| BRK.B | Berkshire Hathaway Inc. Class B | Financials | 4.58 | -2.06 | -0.09 |
| AMZN | Amazon.com, Inc. | Consumer Discretionary | 1.05 | -4.59 | -0.05 |

Monthly Portfolio Activity

NEW INVESTMENT

| TICKER | NAME | REASON FOR DECISION |
|--------|------|---------------------|
| | None | |

DELETION

| TICKER | NAME | REASON FOR DECISION |
|--------|------|---------------------|
| | None | |

Top 10 Equity Holdings (%)

Cash and equivalents: 2.1%

| | | | |
|----------------------------------|-----|-------------------------------|-----|
| 1. Visa, Inc. | 6.3 | 6. Lowe's Companies, Inc. | 3.7 |
| 2. Mastercard, Inc. | 5.4 | 7. Facebook, Inc. | 3.6 |
| 3. Alphabet, Inc. (Class A & C)# | 4.8 | 8. Edwards Lifesciences Corp. | 3.3 |
| 4. Berkshire Hathaway, Inc. Cl B | 4.4 | 9. JPMorgan Chase & Co. | 3.2 |
| 5. Microsoft Corp. | 3.9 | 10. Apple, Inc. | 3.1 |

*Source: FactSet®. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. The security returns listed represent the period of when the security was held during the month. Top five and bottom five contributors exclude cash and cash equivalents. Contribution to return is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return for the reporting period. The top 10 equity holdings include cash and equivalents #Alphabet Inc. represents a 2.1% holding in Class A shares of the stock and a 2.7% holding in Class C shares of the stock. Numbers may not total due to rounding. The portfolio information provided is based on a representative Flexible Equity account and is provided as supplemental information. This representative account may differ from specific client portfolios. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions. Past performance is not indicative of future results. The composite performance shown above reflects the Flexible Equity Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS Compliant firm and is a division of Brown Advisory LLC. Please see the Brown Advisory Flexible Equity disclosure statement at the end of this presentation for a GIPS compliant presentation.



R. HUTCHINGS VERNON, CFA
Portfolio Manager



MANEESH BAJAJ, CFA
Portfolio Manager

INSIDE THE STRATEGY: FACTS & TYPICAL PORTFOLIO FIGURES

| | |
|---------------------------|--------------------------------|
| Inception: 12/31/1984 | Top 10 Weight: 30%–50% |
| Benchmark: S&P 500® Index | Position Size: 1%–6%, max. 8% |
| Portfolio: 35–45 Holdings | Cash Position: 0%–5%, max. 10% |

Portfolio Comments

The Brown Advisory Flexible Equity Composite rose 2.8% (net of fees), underperforming its benchmark S&P 500® Index, which rose 3.2%. Both the portfolio and market continued in positive territory after last year's fourth-quarter decline.

Visa and Mastercard were the portfolio's two largest contributors during the month. Payment volume growth remains robust, and both companies continue to benefit from the secular shift away from cash. Additionally, both companies reported better-than-expected earnings, beating consensus expectations. These two companies helped to make the information technology sector the second-best contributor to portfolio performance for the month.

Lowe's Companies was also a top contributor for the month, having reported solid progress on its turnaround plans. The company's new leadership is focused on both instituting a new store management structure and "retail fundamentals", leading to improved store performance. Additionally, the new management is implementing changes to better target professional customers and improve paint sales, both of which have lagged competition. The stock's meaningful performance helped make the consumer discretionary sector the best-performing sector for the portfolio during the month.

UnitedHealth Group was the portfolio's largest detractor to performance during February, also helping to make the health care sector the worst-performing sector for the portfolio during the month. The company's shares traded down on the back of presidential hopefuls promoting a "Medicare for all" approach to health insurance. In our view, it is too early to tell if this idea will ultimately manifest and identify the potential impact on the managed care industry. In such a scenario, the commercial insurance business for the industry would likely suffer, but the industry would also likely benefit from new public-private partnerships. We believe that UnitedHealth is well positioned to be a partner of choice for these types of partnerships. A recent example is the VA Community Care program partnering with private managed-care organizations including UnitedHealth. We remain vigilant and continue to watch these industry dynamics evolve.

There were no additions to or deletions from the portfolio during the month. [L](#)

Brown Advisory Institutional Flexible Equity Composite

| Year | Composite Total Gross Returns (%) | Composite Total Net Returns (%) | Benchmark Returns (%) | Composite 3-Yr Annualized Standard Deviation (%) | Benchmark 3-Yr Annualized Standard Deviation (%) | Portfolios in Composite at End of Year | Composite Dispersion (%) | Composite Assets (\$USD Millions)* | GIPS Firm Assets (\$USD Millions)* |
|------|-----------------------------------|---------------------------------|-----------------------|--|--|--|--------------------------|------------------------------------|------------------------------------|
| 2017 | 25.1 | 24.6 | 21.8 | 11.4 | 9.9 | 50 | 0.3 | 2,912 | 33,155 |
| 2016 | 9.9 | 9.4 | 12.0 | 12.1 | 10.6 | 52 | 0.2 | 2,883 | 30,417 |
| 2015 | -2.0 | -2.4 | 1.4 | 11.1 | 10.5 | 56 | 0.2 | 2,686 | 43,746 |
| 2014 | 14.0 | 13.5 | 13.7 | 9.2 | 9.0 | 49 | 0.2 | 3,195 | 44,772 |
| 2013 | 37.5 | 36.9 | 32.4 | 11.9 | 11.9 | 44 | 0.4 | 2,247 | 40,739 |
| 2012 | 19.9 | 19.5 | 16.0 | 14.6 | 15.1 | 40 | 0.3 | 1,818 | 26,794 |
| 2011 | 5.8 | 5.4 | 2.1 | 18.5 | 18.7 | 43 | 1.1 | 1,714 | 19,962 |
| 2010 | 11.1 | 10.3 | 15.1 | 22.7 | 21.9 | 45 | 0.7 | 1,811 | 16,859 |
| 2009 | 37.1 | 36.0 | 26.5 | 21.3 | 19.6 | 48 | 3.4 | 1,905 | 11,058 |
| 2008 | -36.5 | -37.0 | -37.0 | 16.6 | 15.1 | 51 | 1.9 | 1,541 | 8,547 |
| 2007 | -6.7 | -7.4 | 5.5 | 8.3 | 7.7 | 84 | 1.9 | 4,070 | N/A |

*Returns prior to 2008 were earned at ABIM; therefore, firm assets are not applicable

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.

- For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
- The Institutional Flexible Equity Composite includes all actual, discretionary, institutional accounts with a flexible value equity objective of 100%. The strategy seeks bargains in "value" as well as "growth" stocks and invests primarily in the common stock of domestic companies with market capitalizations greater than \$2 billion at the time of purchase. As of January 1, 2013, the minimum account market value required for composite inclusion is \$1.5 million. Prior to August 2013 the name of this composite was Institutional Flexible Value. The strategy remains the same.
- This composite was created in 1985.
- The benchmark is the S&P 500® Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks that is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvestment of dividends and do not reflect any fees or expenses. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers. Standard & Poor's, S&P®, S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global Inc.
- The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns. From January 2007, through December 2008, dispersion is calculated using the asset-weighted standard deviation of the annual gross returns of those accounts included in the composite for the full year.
- Between October 2006 and December 2008, a significant cash flow policy was adopted for this composite. A significant cash flow is defined as a single flow of cash or securities of more than 25% of the portfolio's market value at prior month end. Accounts with significant cash flows are excluded from the composite for a grace period, defined as the month during which the flow occurred. Additional information regarding significant cash flow policies are available upon request.
- Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. Prior to 2011, net performance is based on a model fee using the highest fee in effect, 0.75% applied quarterly. The Actual fees may vary, depending on, among other things, the applicable fee schedule and portfolio size. The fee schedule is as follows: 0.60% on the first \$25 million; 0.50% on the next \$25 million; 0.45% on the next \$50 million; and 0.40% on the balance over \$100 million. For periods after 2011 actual fees are used to calculate net returns. Actual fees paid by accounts in the composite may differ from the current fee schedule.

- Between October 2006 and December 2008, a significant cash flow policy was adopted for this composite. A significant cash flow is defined as a single flow of cash or securities of more than 25% of the portfolio's market value at prior month end. Accounts with significant cash flows are excluded from the composite for a grace period, defined as the month during which the flow occurred. Additional information regarding significant cash flow policies are available upon request.
- Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. Prior to 2011, net performance is based on a model fee using the highest fee in effect. Actual fees may vary, depending on, among other things, the applicable fee schedule and portfolio size. The highest applicable fee schedule is as follows: 0.60% on the first \$25 million; 0.50% on the next \$25 million; 0.45% on the next \$50 million; and 0.40% on the balance over \$100 million. 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.
- The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on December 31.
- Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
- A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Past performance does not indicate future results.
- 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

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client. Please see composite disclosure statements above for additional information.

The S&P 500® Index represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include market capitalization, financial viability, liquidity, public float, sector representation and corporate structure. An index constituent must also be considered a U.S. company. An investor cannot invest directly into an index. S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC. FactSet® is a registered trademark of FactSet Research Systems, Inc. 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.

Terms and Definitions for Representative Account Calculations

The **Average Weight** of a position or sector refers to the daily average for the period covered in this report of a stock's value as a percentage of the portfolio. The **Total Return** of an equity security is the sum of the return from price movement and the return due to dividend payments or other sources of income. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period. **Contribution to Return** is calculated by multiplying a security's beginning portfolio weight by its daily return and geometrically linking the security's daily contribution to return over the entire reporting period.