

Fourth Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL® GLOBAL LARGE-CAP NET INDEX
3 Mos.	-12.39	-12.52	-12.95
1 YR	-2.16	-2.80	-9.52
3 YR	9.53	8.71	6.61
ITD (1 May 2015)	8.09	7.27	3.28

Provided as supplemental information. The composite performance shown above reflects the Brown Advisory Global Leaders Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a division of Brown Advisory LLC, and Brown Advisory Institutional is a GIPS compliant firm. Please see the end of this for a GIPS compliant presentation.

REP. ACCOUNT CHARACTERISTICS

	GLOBAL LEADERS REP. ACCT.	RUSSELL GLOBAL LARGE-CAP NET INDEX
ROIC (LFY ex. financials) Median (%)	25.4	10.7
Hist 3Yr Sales Growth (Median) (%)	8.7	4.9
NTM EV/EBIT (ex. financials Median)	15.2x	12.3x
FCF (LFY ex. financials) Median (%)	4.9	4.7
P/E (NTM) Median	17.9x	13.3x

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Microsoft Corporation	6.3
Alphabet Inc. Class C	5.2
Unilever PLC	5.0
Visa Inc. Class A	4.8
Wolters Kluwer NV	3.6
Mastercard Incorporated Class A	3.4
JPMorgan Chase & Co.	3.3
Estee Lauder Companies Inc. Class A	3.3
AIA Group Limited	3.3
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	3.1
TOTAL	41.3



MICK DILLON, CFA
Portfolio Manager



BERTIE THOMSON, CFA
Portfolio Manager

Review & Outlook

The Global Leaders Strategy outperformed its benchmark, the Russell Global Large-Cap Index, in the fourth quarter of 2018 and for the year.

The Global Leaders Strategy is focused on delivering long-term performance by buying a concentrated portfolio of companies that uniquely satisfy their customers and generate attractive economics for shareholders. We believe that we have a very high-quality portfolio and offer downside protection as a key attribute to the strategy. We were pleased to see that the strategy held up despite the increased market volatility in the fourth quarter. During the year, our downside protection was evident, as we outperformed our benchmark four out of the five months when the benchmark was down, maintaining the 75% downside capture hit rate since inception.

Given its concentrated nature, the Global Leaders Strategy's performance is an output of our stock picking, and relative performance benefited from our holdings in the financials and technology sectors for both the fourth quarter, and the year. All of our Asian financials outperformed in the fourth quarter highlighting one of the differentiators of this strategy. Our Asian financials include PT Bank Rakyat, HDFC and AIA, with PT Bank Rakyat being the largest positive contributor to performance during the fourth quarter.

We believe that capital allocation is equally as important as stock selection, and we are pleased that our biggest weights contributed the largest amount of alpha for the year. In addition, we are happy that the strategy outperformed its equal weighted portfolio—an accomplishment we also achieved in 2017.

We did not initiate any positions during the quarter; however, we did have three eliminations. Two of the eliminations, eBay and Hoshizaki, fell in the bottom five detractors for the year. Our investment thesis for eBay had shifted earlier in the quarter due to structural competitive challenges on the supply side and therefore we decided to sell our position. We eliminated Hoshizaki following a lengthy internal investigation into conduct at one of its sales subsidiaries that raised question marks about management control at the organization. As a result, we liquidated our position. Lastly, we exited our investment in Facebook in order to fully build our new position in Tencent, a position we initiated in the third quarter. We were particularly concerned when the founders of Instagram, WhatsApp and Oculus (all companies acquired by Facebook) all left within the last year. We viewed this exodus as being a byproduct of Facebook trying to drive more advertising onto its platforms, which risks further user disengagement. Additionally, from a capital allocation perspective, we did not want 10% of our clients' capital exposed to advertising-driven business models, and we preferred Google and Tencent over Facebook.

We have been diligently executing our investment process during the past quarter. Central to this process is our drawdown review, using our teardown framework, that seeks to shield our investors from one of the most damaging behavioural traits in investment: loss aversion. The review is triggered once a company's equity either falls 20% from purchase or underperforms by 20% relative to the strategy's benchmark over a rolling 12-month period. During the recent bout of volatility, we conducted several drawdown reviews. The drawdown review has one of two outcomes: we either eliminate the position due to thesis violation or add to it if we believe that there is a moment of temporary inefficiency that we can exploit for our clients. This facet of our process hinges on our belief that markets can be inefficient over the short term and that they periodically serve up opportunities for the long-sighted investor. We continue to be very active on the research front and have a full research pipeline, as we see more opportunities now than we have in the recent past.

Sector Diversification

- Global Leaders is a concentrated global strategy that focuses on investing in a small number of franchises that we believe deliver exceptional outcomes for their customers and outstanding economics for shareholders. Accordingly, sector and country diversification are outputs of stock picking with the team more focused on business models and end-market economics than in which sector a company is classified.
- At the same time, the strategy seeks differentiated exposures but will not compromise philosophically. The portfolio managers are happy to have no exposure in areas such as energy, real estate or utilities that do not satisfy their investment criteria.
- Our largest overweight in the strategy has switched from industrials to technology. Both are heterogeneous sectors that contain a variety of different business models.

SECTOR	GLOBAL LEADERS REP. ACCOUNT (%)	RUSSELL GLOBAL LARGE-CAP NET INDEX (%)	DIFFERENCE (%)	GLOBAL LEADERS REP. ACCOUNT (%)	
	Q4 '18	Q4 '18	Q4 '18	Q3 '18	Q4 '17
Communication Services	13.32	8.70	4.62	14.15	11.70
Consumer Discretionary	7.39	10.07	-2.68	10.03	6.55
Consumer Staples	11.27	8.24	3.03	8.50	12.37
Energy	--	6.03	-6.03	--	--
Financials	20.38	17.35	3.03	17.60	20.28
Health Care	3.30	12.12	-8.82	3.19	6.18
Industrials	17.30	10.76	6.53	19.45	14.41
Information Technology	22.31	14.71	7.61	22.23	23.24
Materials	4.73	5.06	-0.33	4.85	5.27
Real Estate	--	3.63	-3.63	--	--
Utilities	--	3.33	-3.33	--	--

Sector diversification excludes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- During the quarter, financials were the top-performing sector, driven primarily by our Asian financial holdings, namely **PT Bank Rakyat**, **HDFC Bank** and **AIA Group**.
- Our technology names held up better than the benchmark over the quarter.
- Additionally, our lack of exposure to energy positively contributed to our relative outperformance.
- Industrials were the largest detractor of relative performance.

SECTOR	GLOBAL LEADERS REP. ACCOUNT		RUSSELL GLOBAL LARGE-CAP INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	12.40	-15.19	8.54	-11.58	0.04	-0.42	-0.38
Consumer Discretionary	8.31	-20.86	10.04	-15.39	-0.03	-0.45	-0.48
Consumer Staples	10.31	-6.17	8.08	-6.65	0.07	0.15	0.22
Energy	--	--	6.37	-20.68	0.56	--	0.56
Financials	19.52	-3.91	17.36	-12.05	-0.02	1.70	1.69
Health Care	3.15	-12.02	12.08	-9.97	-0.30	-0.03	-0.33
Industrials	19.40	-18.36	10.85	-15.86	-0.31	-0.59	-0.89
Information Technology	22.38	-13.59	15.04	-17.09	-0.33	0.90	0.58
Materials	4.53	-10.55	5.00	-13.63	-0.01	0.11	0.10
Real Estate	--	--	3.51	-4.91	-0.31	--	-0.31
Utilities	--	--	3.14	0.50	-0.43	--	-0.43
Total	100.00	-12.65	100.00	-12.95	-1.08	1.39	0.30

Sector attribution excludes cash and cash equivalents.

Quarterly Contribution to Return

- Two of our Asian financials were some of the top contributors for the quarter, **Bank Rakyat** and **HDFC Bank**. Bank Rakyat had been weak in the third quarter due to Rupiah depreciation (nearly 80% of the nongovernment investor base is foreigners). The bank rallied in the fourth quarter as investors shifted attention back to fundamentals after the bank reported third-quarter results that showed resilient loan growth ahead of management guidance and stable asset quality.
- Tencent** shares outperformed during the period after the regulatory body that approves video games in China was finally restructured. While our view on Tencent was not predicated on this short-term resolution of the gaming approval process, we were pleased to see it happen this year.
- Hoshizaki** sold off in the fourth quarter due to an internal investigation on conduct at one of its sales subsidiaries at the end of October. The lengthiness of the investigation caused us to lose confidence in management's control of the company and we decided to exit our investment.
- Electronic Arts** reported decent results but lowered near-term expectations for their live services revenue, which we view as transient.
- Microsoft** and **Flowserve** were top performers that outperformed in the third quarter, but both companies' equity prices retreated during the fourth quarter.
- Schindler** was weak on the back of slowing outlook growth, stemming from weakening demand from China. We remain attracted to the company's powerful aftermarket-led business model.

GLOBAL LEADERS REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
BBRI-ID	PT Bank Rakyat Indonesia (Persero) Tbk Class B	2.66	20.40	0.54
500180-IN	HDFC Bank Limited	2.13	9.88	0.26
700-HK	Tencent Holdings Ltd.	2.65	-2.89	0.11
BF.B-US	Brown-Forman Corporation Class B	1.91	-5.54	-0.05
HSX-GB	Hiscox Ltd.	2.81	-3.76	-0.09
GLOBAL LEADERS REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
6465-JP	HOSHIZAKI Corp.	1.82	-36.20	-1.05
EA	Electronic Arts Inc.	2.22	-34.51	-0.89
MSFT	Microsoft Corporation	6.82	-10.80	-0.74
FLS	Flowserve Corporation	2.03	-30.48	-0.70
SCHN	Schindler Holding AG	3.14	-20.25	-0.67

Contribution excludes cash and cash equivalents.

Portfolio Activity

- We sold our position in **eBay** after conducting our -20% drawdown review. This is a step in our process we use to avoid loss aversion that stems from underperforming holdings. Our decision is to either add to the position or exit from it completely. In the case of eBay, we believe that the investment thesis had shifted due to structural, competitive challenges on the supply side.
- We exited our investment in **Facebook** in order to fully build our new position in Tencent which we initiated in the third quarter. We were particularly concerned when the founders of Instagram, WhatsApp and Oculus (all companies Facebook has acquired) all left within the last year. We viewed this exodus as being a byproduct of Facebook trying to drive more advertising onto its platforms, which risks further user disengagement. Additionally, from a capital allocation perspective, we did not want 10% of our clients' capital exposed to advertising-driven business models and favored our investments in Google and Tencent over Facebook.
- We sold Japanese catering equipment manufacturer **Hoshizaki** following a lengthy internal investigation into conduct at one of its sales subsidiaries (less than 10% of group revenue). This episode raised question marks about management control at the organization, and we decided to liquidate our position, choosing to recycle the capital into better opportunities within the portfolio.

GLOBAL LEADERS REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
	None	
DELETIONS		SECTOR
EBAY	eBay Inc.	Consumer Discretionary
FB	Facebook Inc. Class A	Communication Services
6465-JP	HOSHIZAKI Corp.	Industrials

Brown Advisory Global Leaders Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets (\$USD Millions)	GIPS Firm Assets (\$USD Millions*)
2017	35.1	34.0	24.6	N/A	N/A	2	N/A	77	33,155
2016	-0.6	-1.4	8.1	N/A	N/A	2	N/A	38	30,417
2015**	1.2	0.7	-7.1	N/A	N/A	2	N/A	24	43,746

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

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2017. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

1. *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The Global Leaders Composite aims to achieve capital appreciation by investing primarily in global equities. The strategy will invest in equity securities of companies that the portfolio manager believes are leaders within their industry or country, as demonstrated by an ability to deliver high relative return on invested capital over time.
3. This composite was created in 2015.
4. The benchmark is the Russell Global Large-Cap Net Index. This index offers investors access to the large-cap segment of the entire global equity universe. The index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to accurately reflect the changes in the market over time. Russell® is a trademark/service mark of the London Stock Exchange Group companies. One cannot invest directly in an index. Benchmark returns are not covered by the report of the independent verifiers. Benchmark returns are not covered by the report of the independent verifiers.
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, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. The standard management fee schedule is as follows: 0.80% on the first \$25 million; 0.70% on the next \$25 million; 0.65% on the next \$50 million; and 0.50% 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.
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 3 year annualized standard deviation is not presented as of December 31, 2015, because 36 monthly returns for the composite were not available (NA) and the composite did not exist.
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 are available upon request.
10. Past performance does not indicate future results.
11. This piece is provided for informational purposes only and should not be construed as a research report, a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned, including any mutual fund managed by Brown Advisory.

Disclosures

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Composite performance is based on the Brown Advisory Global Leaders Composite and was obtained through FactSet®. All information and returns shown are as of 12/31/2017 for each period. Returns greater than one year are annualized. Past performance is not indicative of future results. Representative account characteristics and top 10 holdings were obtained through FactSet and Brown Advisory calculations. This information is based on a representative Global Leaders account and is provided as supplemental information. Account characteristics include cash and cash equivalents; top 10 holdings list includes cash and cash equivalents. FactSet® is a registered trademark of FactSet Research Systems, Inc.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. The portfolio information provided is based on a representative Global Leaders account and is provided as supplemental information. The information provided in this material should not be considered a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. References to specific securities are for illustrative purposes only and do not represent all of the securities purchased, sold or recommended for advisory clients. The security returns listed represent the period of when the security was held during the quarter. Top five and bottom five contributors exclude cash and cash equivalents. Sector diversification excludes cash and cash equivalents. Total portfolio return figures provided above reflect the sum of the returns of the equity holdings in the representative account portfolio due to price movements and dividend payments or other sources of income, and exclude cash. Performance figures may vary from actual portfolio performance, as calculations are based on end-of-day security prices and do not incorporate the actual cost basis or sale price of individual securities. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. GICS® is a registered trademark of MSCI and Standard & Poor's Financial Services LLC. The individual amounts shown for top ten holdings, sector diversification and quarterly attribution may not sum to the total amount shown due to rounding.

Please see composite disclosure statement above for additional information.

Terms and Definitions For Representative Account Calculations

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. **Price-Earnings Ratio (P/E Ratio)** is the ratio of the share of a company's stock compared to its per-share earnings. P/E calculations presented use FY2 earnings estimates; FY1 estimates refer to the next unreported fiscal year, and FY2 estimates refer to the fiscal year following FY1. **Return on Invested Capital (ROIC)** is the percentage amount that a company is making for every percentage point over the Cost of Capital/ Weighted Average Cost of Capital (WACC). More specifically the return on investment capital is the percentage return that a company makes over its invested capital. **Sales growth** rate is based on FactSet reported company revenue for the past three years at the end of the current quarter, provided as a historical average. **EV/EBIT** is a financial ratio used to measure a company's return on investment. The **Average Weight** of a position or sector refers to the daily average for the period covered in this report of a stock's value as a percentage of the portfolio. The **Total Return** of an equity security is the sum of the return from price movement and the return due to dividend payments or other sources of income. The portfolio and benchmark returns provided reflect the sum of the returns of the equity holdings in the portfolio and the benchmark, respectively. The returns exclude cash. **Allocation Effect** measures the impact of the decision to allocate assets differently than those in the benchmark. **Selection and Interaction Effect** reflects the combination of selection effect and interaction effect. Selection effect measures the effect of choosing securities that may or may not outperform those of the benchmark. Interaction effect measures the effect of allocation and selection decisions (i.e., did we overweight the sectors in which we underperformed). **Total Effect** reflects the combination of Allocation, Selection and Interaction effects. Totals may not equal due to rounding. **Contribution To Return** is calculated by multiplying a security's beginning weight as a percentage of a portfolio by that security's return for the period covered in the report.