

Fourth Quarter 2018

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 1000® GROWTH INDEX
3 MOS.	-14.29	-14.37	-15.89
1 YR.	5.89	5.49	-1.51
3 YR.	10.85	10.42	11.15
5 YR.	9.48	9.04	10.40
10 YR.	16.56	16.12	15.29
ITD (05/31/1996)	9.28	8.71	7.70

The composite performance shown above reflects the Brown Advisory Large-Cap Growth Institutional 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.



KENNETH STUZIN, CFA
Portfolio Manager

Review & Outlook

The closing chapters of 2018 turned out to be quite the page turners as market volatility took a pronounced step higher. There were 17 days during the fourth quarter in which the Russell 1000® Growth Index, the strategy's benchmark, was up or down 2% or more for the day, compared to just 10 days for the rest of the year and none in the entirety of 2017. The benchmark dropped nearly 16% in the fourth quarter, erasing all the gains from the prior three quarters and ending the year down about 1.5%. The narrative has not changed dramatically, yet the market has seemingly developed an increased sensitivity to the news flow as of late. Concerns of the Federal Reserve missing the target on interest rates juxtaposed with inflationary pressures and the prospect of a cooling global economy continue to dominate the financial headlines. The Large-Cap Growth strategy held up better than the benchmark in the fourth quarter, very similar to the previous periods of volatility that we experienced earlier in the year. In fact, the portfolio outperformed in all four months the benchmark return was negative in 2018.

Despite a modest positive contribution in the fourth quarter, stock selection in health care was a standout contributor in 2018. A combination of several names that we purchased in recent years, such as **Dexcom**, **Zoetis** and **Edwards Lifesciences**, coupled with longtime holdings **Intuitive Surgical** and **Danaher**, both of which we have held for more than a decade, all provided strong positive contributions in 2018. Dexcom, which was the best-performing stock in the portfolio for the year, manufactures an industry-leading continuous glucose monitoring (CGM) device, used by diabetics to monitor their blood sugar levels in real time. A series of rapid-succession approvals by the FDA and Medicare reimbursement approval for Dexcom and several competitors have validated the importance of CGM in the treatment and management of diabetes. This expanded awareness has created a massive market opportunity, and we believe that Dexcom is positioned well to capitalize on it.

It was technology that took the lead in terms of relative contribution for the fourth quarter, flipping from a modest detractor on a relative basis at the end of August to become the second largest positive contributor for the full year. This was partially due to meaningful weakness in several stocks that we do not own, such as Apple, NVIDIA and IBM, which are meaningful weights in the benchmark. Software companies **Adobe** and **Salesforce.com** were two of our top contributors for the year. Both of these companies continue to take advantage of market opportunities and have been successful in prolonging their growth trajectories far longer than market expectations.

The recently reformed communications services sector was the biggest drag on the portfolio for the year. The most meaningful detractors were **Electronic Arts** and **Charter Communications**. We eliminated Charter during the year as our growth thesis became impaired, but we remain invested in Electronic Arts, which is one of the world's leading video game publishers. The video game industry is experiencing secular growth as well as a structural profitability tailwind as consumers purchase a greater proportion of console video game services digitally. We also feel that ample opportunity remains to improve monetization of gamers' playing time, which is much lower than other forms of entertainment. Electronic Arts offers a stable portfolio of titles anchored by its sports franchises, FIFA in particular, which has global appeal. The company experienced several setbacks during the year, some of which, in our view, were self-inflicted. However, our investment thesis remains intact, and management has demonstrated the ability to bounce back from these obstacles in the past. **Facebook** was eliminated from the portfolio this quarter to fund a new position in **Microsoft**. Facebook remains in the crosshairs of regulatory and consumer backlash as a result of its missteps with respect to data governance practices. This will undoubtedly weigh on its ability to grow as profitably as it has in the past. Given these challenges, we decided to reallocate this capital to a business we believe has greater visibility and offers a more compelling profile of upside potential versus downside risk.

We are quite pleased with the performance of the portfolio over the course of the year, especially during periods of increased market volatility. Holding companies with strong fundamentals, core to our investment approach, are one of the weapons we have to combat market volatility. Business model, end-market diversification and time-tested sensitivity to excessive valuation are all components of our investment process geared toward protecting investors' capital in volatile markets. We appreciate the fact that we are not going to win the relative performance game every year, but maintaining a steadfast discipline with respect to our investment process in both favorable and difficult market conditions is crucial to adding value over the long term. [18](#)

REP. ACCOUNT CHARACTERISTICS

	LARGE-CAP GROWTH REP. ACCT.	RUSSELL 1000® GROWTH INDEX
Weighted Avg. Market Cap.	\$145.5B	\$247.4B
Weighted Median Market Cap.	\$51.1B	\$97.8B
Earnings Growth (3-5 Yr. Est.)	17.9%	16.3%
P/E Ratio (FY2 Est.)	23.2x	17.3x
PEG Ratio	1.3x	1.1x
Portfolio Turnover (3-Yr. Avg.)	32.9%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Zoetis, Inc.	4.5
Visa, Inc.	4.5
Amazon.com, Inc.	4.4
Intuitive Surgical, Inc.	4.1
Cash & Equivalents	4.0
PayPal Holdings, Inc.	3.9
Intuit, Inc.	3.9
Thermo Fisher Scientific, Inc.	3.7
Salesforce.com, Inc.	3.7
Alphabet, Inc. Class C	3.6
TOTAL	40.3

Sector Diversification

- The portfolio remains well-diversified across economic sectors.
- The portfolio weighting to communication services dropped by about 3.3% due to the sale of Facebook. This capital was redeployed primarily to the technology sector.
- Health care remains the largest overweight in the portfolio given the strong 2018 performance. We have found health care to be a fruitful place to find stocks offering a balance of offensive and defensive characteristics.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT (%)		RUSSELL 1000® GROWTH INDEX (%)	DIFFERENCE (%)	LARGE-CAP GROWTH REP. ACCOUNT (%)	
	Q4 '18	Q4 '18	Q4 '18	Q4 '18	Q3 '18	Q4 '17
Communication Services	6.72	11.93	11.93	-5.20	10.05	12.05
Consumer Discretionary	12.52	15.14	15.14	-2.62	13.36	13.09
Consumer Staples	6.03	6.04	6.04	-0.01	5.55	6.43
Energy	--	0.76	0.76	-0.76	--	--
Financials	--	4.40	4.40	-4.40	--	--
Health Care	21.91	14.28	14.28	7.63	21.19	17.70
Industrials	11.46	11.83	11.83	-0.37	12.88	12.40
Information Technology	34.18	31.46	31.46	2.72	30.43	31.35
Materials	3.48	1.84	1.84	1.64	3.41	3.44
Real Estate	3.70	2.32	2.32	1.38	3.12	3.53
Utilities	--	--	--	--	--	--

Quarterly Attribution Detail by Sector

- Technology stocks were weak across the board in the fourth quarter. However, the portfolio's technology names held up better than the benchmark and were the biggest positive contributor on a relative basis. The portfolio also benefited from several of the mega-cap technology stocks not held that traded considerably lower.
- Both consumer staples and discretionary sectors were a drag on the portfolio this quarter. While none of our consumer names were meaningful underperformers, the sharp increase in volatility tends to favor slower-growing staple stocks that are generally viewed as defensive.

SECTOR	LARGE-CAP GROWTH REP. ACCOUNT		RUSSELL 1000® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	9.22	-20.30	11.81	-17.30	0.03	-0.42	-0.39
Consumer Discretionary	13.06	-19.69	15.05	-17.17	-0.01	-0.40	-0.41
Consumer Staples	6.16	-11.50	5.92	-6.81	--	-0.26	-0.26
Energy	--	--	0.85	-28.84	0.11	--	0.11
Financials	--	--	4.37	-11.94	-0.19	--	-0.19
Health Care	21.67	-10.80	14.03	-12.14	0.30	0.39	0.69
Industrials	11.88	-19.27	11.96	-16.59	-0.01	-0.37	-0.39
Information Technology	31.14	-13.14	32.02	-18.82	--	2.09	2.09
Materials	3.36	-13.39	1.77	-12.01	0.03	-0.06	-0.03
Real Estate	3.50	0.78	2.21	-1.83	0.14	0.08	0.22
Utilities	--	--	--	--	--	--	--
Total	100.00	-14.44	100.00	-15.89	0.40	1.05	1.45

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

Quarterly Contribution to Return

- **SBA Communications** managed to generate a modest positive return as investors sought out companies with consistent earnings and cash flows.
- New technology holding Microsoft along with **PayPal** traded lower but were among the better technology performers this quarter, as they both continue to produce strong results.
- Robust spending in life sciences continues to be a strong tailwind for Danaher. China remains a strong market for Danaher, as its end markets align well with the company's national priorities.
- Despite record profitability, **Amazon** traded lower, as it reported total revenue that was less than expected for the most recent quarter.
- Electronic Arts reported decent results, but it lowered near-term expectations for the live services segment due to some transitory issues.
- Defense company **BWX Technologies** reported weak results due to poor execution on a non-core segment of their business. The company's main business—making nuclear reactors for naval vessels, continues to perform well; however, it took an earnings charge in order to correct a quality control issue in its missile tube division.
- Given the strength that Intuitive Surgical has enjoyed this year, investors looked to take some profits in the stock.
- **Fortive** delivered an uncharacteristically sloppy quarter with a lot of moving parts due in part to acquisition and divestiture activity.

LARGE-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
SBAC	SBA Communications Corp. Class A	3.50	0.78	0.01
MSFT	Microsoft Corporation	0.37	-2.31	-0.06
DHR	Danaher Corporation	3.08	-4.95	-0.13
PYPL	PayPal Holdings Inc	3.82	-4.27	-0.13
AOS	A. O. Smith Corporation	0.29	-14.76	-0.18
LARGE-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
AMZN	Amazon.com, Inc.	4.70	-25.01	-1.32
EA	Electronic Arts Inc.	2.97	-34.51	-1.16
BWXT	BWX Technologies, Inc.	1.78	-38.65	-0.80
ISRG	Intuitive Surgical, Inc.	4.25	-16.56	-0.70
FTV	Fortive Corp.	3.33	-19.57	-0.69

Portfolio Activity

- We initiated a new position in Microsoft, which is a leading enterprise software company offering both cloud computing and productivity applications. The company has successfully reinvented itself over the last several years, and we have a high degree of confidence in its ability to grow revenues and expand operating margins going forward. We funded the new position with the sale of our position in Facebook. Facebook remains in the crosshairs of regulatory and consumer backlash as a result of its missteps with respect to data governance practices. Given these challenges, we are reallocating this capital to a business we believe has greater visibility and offers a more compelling ratio of upside potential versus downside risk.
- The recent deceleration of the Chinese economy and the pressure on housing in particular is likely to limit **A. O. Smith's** growth potential. We sold the stock from the portfolio, as China was a material part of our growth thesis. Our confidence that the company would be able to meet the hurdle rate for this strategy waned.

LARGE-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
MSFT	Microsoft Corporation	Information Technology
DELETIONS		SECTOR
AOS	A. O. Smith Corporation	Industrials
FB	Facebook, Inc. Class A	Communication Services

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Large-Cap Growth Institutional 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	31.7	31.2	30.2	11.5	10.5	119	0.3	10,005	33,155
2016	-2.3	-2.7	7.1	11.2	11.2	148	0.1	9,786	30,417
2015	7.8	7.4	5.7	10.2	10.7	168	0.3	12,583	43,746
2014	7.1	6.6	13.1	11.0	9.6	181	0.2	14,674	44,772
2013	30.3	29.7	33.5	15.5	12.2	212	0.3	15,740	40,739
2012	16.7	16.2	15.3	18.7	15.7	148	0.4	8,525	26,794
2011	0.4	0.0	2.6	19.7	17.8	102	0.3	5,622	19,962
2010	25.7	25.3	16.7	22.5	22.1	65	0.5	3,936	16,859
2009	53.3	53.0	37.2	20.0	19.7	41	0.6	1,191	11,058
2008	-35.7	-36.3	-38.4	16.5	16.4	32	0.3	120	8,547
2007	12.1	11.8	11.8	8.9	8.5	30	0.3	160	7,385

Brown Advisory claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory 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 Large-Cap Growth Institutional Composite includes all discretionary institutional portfolios (and carve-outs through 2009) invested in U.S. equities with strong earnings growth characteristics and large market capitalizations. This composite has been examined for the periods from January 1, 2006 through December 31, 2009. The examination reports are available upon request. The minimum account market value required for composite inclusion is \$1.5 million.
- Through 2009, cash was allocated to carve-outs based on a strategic asset allocation percentage. For calendar year end 2006-2009, the percent of the composite composed of carve-outs was 85%, 38%, 33% and 5% respectively
- This composite was created in 1997.
- The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns.
- The benchmark is the Russell 1000® Growth Index. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 1000® Growth Index and Russell® are trademarks/service marks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
- 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 \$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.
- For calendar year end 2006-2009 the percent of the composite composed of carve-outs was 69%, 62%, 56% and 23% respectively.
- 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.

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Composite performance is based on the Brown Advisory Large-Cap Growth Composite and was obtained through FactSet®. All information and returns shown are as of 12/31/2018 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 Large-Cap Growth 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.

Sector diversification, attribution, top and bottom five contributors and portfolio additions and deletions source: FactSet. The portfolio information provided is based on a representative Large-Cap Growth account and is provided as supplemental information. Total portfolio return figures provided 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. 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. 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 statements above for additional information.

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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. **Market Capitalization** refers to the aggregate value of a company's publicly-traded stock. Statistics are calculated as follows: **Weighted Average**: 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). **Weighted Median**: the value at which half the portfolio's market capitalization weight falls above and half falls below. **Earnings Growth 3-5 Year Estimate** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokers, calculated according to each broker's methodology. **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. **P/E / Growth Ratio, or PEG Ratio**, is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate. **Three-Year Annualized Portfolio Turnover** is the ratio of the lesser of the portfolio's aggregate purchases or sales during a given period, divided by the average value of the portfolio during that period, calculated on a monthly basis. Portfolio turnover is provided for a three-year trailing period. All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average. **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. **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 in the portfolio by the security's return on a daily basis, and geometrically linking the return to the reporting period.