Mid-Cap Growth

QUARTERLY STRATEGY UPDATE

Brown ADVISORY
Thoughtful Investing.

Second Quarter 2019

COMPOSITE PERFORMANCE (%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL MIDCAP® GROWTH INDEX®
3 MOS.	8.69	8.55	5.40
YTD	32.01	31.68	26.08
1 YR.	17.91	17.31	13.94
3 YR.	19.07	18.38	16.49
5 YR.	15.31	14.57	11.10
ITD (02/29/2012)	16.72	15.96	13.49

The composite performance shown above reflects the Brown Advisory Mid-Cap Growth Equity 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

	MID-CAP GROWTH REP. ACCT.	RUSSELL MIDCAP® GROWTH INDEX
Weighted Avg. Market Cap.	$17.59B	$18.59B
Weighted Median Market Cap.	$13.64B	$17.19B
Earnings Growth (3-5 Yr. Est.)	14.31%	15.88%
P/E Ratio (FY2 Est.)	25.0x	20.3x

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Waste Connections Inc	3.8
Ball Corp.	3.5
Cash & Equivalents	3.3
Catalent, Inc.	3.0
Genpact Ltd.	2.6
Mimecast, Ltd.	2.5
Teleflex, Inc.	2.4
Electronic Arts, Inc.	2.3
Marriott International, Inc.	2.3
SBA Communications Corp.	2.3
TOTAL	**28.0**

CHRISTOPHER A. BERRIER
Portfolio Manager

GEORGE SAKELLARIS, CFA
Portfolio Manager

Review & Outlook

The Mid-Cap Growth strategy outpaced its benchmark, the Russell Midcap® Growth Index, during the second quarter thanks to positive stock selection in the industrials and health care sectors.

While single-digit percentage gains during the quarter paled in comparison to the market's first-quarter exuberance, U.S. equities—and mid-caps in particular—continued to win. The Russell Midcap Growth Index outperformed the Russell 1000® Growth Index by nearly 1% and the Russell 2000® Growth Index by almost 3% in the second quarter. Measured by the same benchmarks, mid-caps have outpaced small-caps by a staggering 14% over the last 12 months. Stocks with high growth rates were in favor once again this quarter, while those with seemingly tame valuations were less popular. Sector performance was reasonably balanced. Technology modestly trailed the benchmark after three winning quarters, while energy was a notable laggard. We doubt these dynamics provided much of a tailwind or headwind to our relative success over this short three-month period.

Despite rising geopolitical concerns and a downshift in U.S. interest rate expectations, management teams generally noted stability/strength from a macro perspective in the second quarter. This is a similar tone to the last two quarters, with most company execs only citing swings in semiconductors, transportation and residential housing. **KKR's** chief operating officer echoed this sentiment on the company's most recent earnings call. While we acknowledge that expectations could change on a dime, we have yet to detect a major inflection in the domestic economy.

Portfolio catalysts this quarter included Pfizer's announced acquisition of **Array BioPharma**, **Catalent's** purchase of Paragon (boosting its exposure to biologics) and the spinoff of **IAA** from **KAR** Auction Services. All three stocks contributed meaningfully to our outperformance. Continued gains from **Ball Corp**. and **HEICO** also helped. Detractors were generally mild, with underperformance driven as much by macro sentiment (deterioration in trade talks and the Chinese economy hurt **Ctrip** and **Farfetch**, for example) as by company-specific issues.

A. O. Smith mildly dragged on results in the second quarter not only because of its exposure to China, but also thanks to a short-seller's scrutiny of the firm's entire operations in that geography. We highlight the stock here—not because it was a meaningful detractor—rather, because of its short life in the portfolio. While we employ a long-term approach with low annual turnover, our investments are not time dependent. Our ongoing primary due diligence unearthed evidence of continued channel inventory issues in China. Thus, we exited the position despite purchasing shares originally in the first quarter.

Given their historical performance and vanishing presence in large-cap funds, we think investors should consider a bespoke allocation to mid-caps. But why now? That is a harder question for us to answer, since we are not market timers. Short-term ebbs and flows of the stock market and its various company-size strata are difficult if not impossible to predict, in our view. Moreover, while we find valuations in the mid-cap space still reasonable, we do not think index earnings multiples are particularly predictive of future returns unless they are near extremes. Thus, we simply argue that if you allocate to U.S. equities at all, you should consider making mid-caps a staple of that allotment.

As always, we remain committed to achieving attractive risk-adjusted returns over a full market cycle by owning a diversified portfolio of companies that we believe could one day grow much larger. We are grateful for your support and look forward to updating you at the conclusion of the third quarter.

For an extended version of this commentary, please reach out to your Brown Advisory relationship manager.

Sector Diversification

- Our only investment in basic materials is **Ecolab**, and we are approximately equal-weight the sector.
- The strategy is roughly equal weight consumer as whole.
- The strategy is underweight financial services. Within the sector, we tilt away from investment banks and insurance companies. We do not believe that the portfolio expresses a major bet for or against rising interest rates.
- We are overweight health care, with broad exposure to services, devices and pharma/biotech.
- We are materially overweight industrials according to the ICB sector classification system. However, over 10 percentage points of our exposure are in companies that we would classify in technology and financials rather than industrials. We also believe our remaining industrial holdings are less cyclical than those of our benchmark.
- While we have no direct investments in oil and gas, the strategy is exposed to oil price fluctuations through fuel card operator **WEX** in industrials.
- Technology remains a material underweight. Within the sector, we have a tilt away from high-multiple stocks. We believe the ICB sector classification system mildly exaggerates our underweight, since it classifies tech-outsourcer **Genpact** in "industrials."

ICB SECTOR	MID-CAP GROWTH REP. ACCOUNT (%)	RUSSELL MIDCAP® GROWTH INDEX (%)	DIFFERENCE (%)	MID-CAP GROWTH REP. ACCOUNT (%)	
	Q2'19	Q2'19	Q2'19	Q1'19	Q2'18
Basic Materials	1.75	1.90	-0.15	1.80	3.42
Consumer Goods	7.42	8.51	-1.1	7.11	11.21
Consumer Services	17.04	15.18	1.86	15.91	11.42
Financials	4.49	9.04	-4.55	6.37	6.70
Health Care	16.36	11.84	4.52	15.73	13.69
Industrials	32.53	26.27	6.26	34.90	36.38
Oil & Gas	--	1.33	-1.33	--	--
Technology	20.41	25.69	-5.28	18.17	17.18
Telecommunications	--	0.23	-0.23	--	--

Quarterly Attribution Detail by Sector

- Positive stock selection, particularly in the health care and industrials sectors, drove our performance during the second quarter.
- Positive contributions from a number of industrial holdings, including Ball Corp., HEICO, **SiteOne** and **Woodward**, lifted results in that sector during the quarter. Strong gains in Catalent coupled with Pfizer's announced acquisition of Array BioPharma drove outperformance in health care.
- **Webster Financial** (our only bank holding) and **Covetrus** drove mild underperformance in the financials and technology sectors, respectively.

ICB SECTOR	MID-CAP GROWTH REP. ACCOUNT		RUSSELL MIDCAP® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Basic Materials	1.79	12.11	1.91	1.46	0.01	0.20	0.21
Consumer Goods	7.06	4.47	8.60	5.49	0.01	-0.06	-0.05
Consumer Services	16.52	6.81	15.09	6.87	0.03	--	0.03
Financials	4.49	6.91	8.98	9.60	-0.17	-0.11	-0.28
Health Care	17.07	8.72	11.66	2.57	-0.15	1.04	0.89
Industrials	33.56	12.42	26.05	5.92	0.04	2.06	2.09
Oil & Gas	0.00	0.00	1.39	-4.50	0.16	--	0.16
Technology	19.50	6.54	25.98	4.74	0.04	0.37	0.41
Telecommunications	--	--	0.23	15.80	-0.01	--	-0.01
Unassigned	--	--	0.12	0.37	0.02	--	0.02
Total	**100.00**	**8.86**	**100.00**	**5.41**	**-0.02**	**3.48**	**3.46**

Quarterly Contribution to Return

- Catalent posted commendable results in the quarter and continued its rapid push into biologics (manufacturing and packaging) with the acquisition of Paragon.
- Ball Corp.'s share price continued to outperform in the quarter thanks to steady results and the growing social movement against plastic containers.
- A strong earnings report with higher-than-expected organic volume growth drove HEICO shares higher this quarter.
- In June, Pfizer announced that it would acquire Array for $48 per share, an approximately 60% premium.
- KAR Auction Services completed the spinoff of its salvage auction segment (IAA) this quarter. We like the salvage auction and the whole-car auction businesses, and added to our positions in both stocks after the quarter ended.
- Covetrus has suffered from a lack of transparency and weak results from Henry Schein's vet distribution business (known when we built the position). While the integration of Vets First Choice (the growth engine) and the legacy distribution business could be rocky for a few quarters, we added to the position in the quarter when shares fell to a level that we believed was a fair price just for the low-growth distribution business.
- Fears of a slowing Chinese economy and an escalating trade war drove underperformance in our holdings exposed to the country during the second quarter (Ctrip and Farfetch).
- Weakness in A. O. Smith's Chinese business and the release of a short report drove the stock lower in the quarter. We sold our small position after our primary research turned up evidence of persistent weak end-demand in China and heightened channel inventory.
- Despite a strong earnings report, investor concerns around sustainability of growth likely drove some underperformance for **GoDaddy** this quarter. The company's managers have called out volatility in its tiny revenue stream from China—this exposure may have contributed to the stock's underperformance.
- Farfetch also posted a wider first quarter operating loss despite stronger-than-expected sales growth, sparking fears that its online marketplace business might not scale as some expect.

MID-CAP GROWTH REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
CTLT	Catalent Inc	3.24	33.56	0.95
BLL	Ball Corporation	3.34	21.26	0.68
HEI	HEICO Corporation	1.33	41.12	0.50
ARRY	Array BioPharma Inc.	0.41	89.18	0.42
KAR	KAR Auction Services, Inc.	1.65	24.70	0.39
MID-CAP GROWTH REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
CVET	Covetrus, Inc.	1.30	-23.20	-0.33
CTRP	Ctrip.com International Ltd Sponsored ADR	1.25	-15.52	-0.25
AOS	A. O. Smith Corporation	0.75	-13.44	-0.16
GDDY	GoDaddy, Inc. Class A	2.02	-6.70	-0.14
FTCH	Farfetch Limited Class A	0.54	-17.62	-0.13

Portfolio Activity

- We built a position in Array BioPharma during the second quarter because we believed both its melanoma and colorectal cancer therapies were undervalued. Pfizer subsequently announced its intention to acquire Array in June.
- We replaced **Agios Pharmaceuticals** with **Blueprint Medicines**. The latter has a few promising drugs in its pipeline, most notably a therapy targeting RET-mutant tumors.
- We see multiple ways for **Dollar Tree** to win in an attractive, noncyclical market. The company could reinvigorate Family Dollar with a new renovation program and/or it might accelerate same-store sales and expand gross margin at its Dollar Tree business by introducing price points above $1.
- We initiated a position in Farfetch, which operates an online luxury fashion marketplace. The company should sustain rapid growth for years given its first-mover advantage and the global luxury fashion market's shift online.
- KAR Auction Services (whole-car auctions) spun off its salvage auction segment (IAA) this quarter. We like both businesses and added to our positions in both stocks after the quarter ended.
- We participated **in Pinterest's** IPO this quarter and added to our position in early trading. Pinterest's user base is a demographic (women, young moms) with high commercial intent. Pinterest is still at the beginning of its monetization trajectory in both the U.S. and the rest of the world, and we see a long runway of average revenue per user growth ahead.
- We participated in **Tradeweb's** IPO during the second quarter. The company operates electronic marketplaces across fixed income and equity products, and benefits from the secular trend of "electornificaiton" of fixed income trading. We believe Tradeweb will leverage its dominant position in U.S. treasuries into other markets. Specifically, we think the company has an advantage over competitor **MarketAccess** in U.S. corporates with its "net spotting" feature, which saves traders time and money by combining the purchase of a corporate bond with a treasury short.

MID-CAP GROWTH REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
ARRY	Array BioPharma Inc.	Health Care
BPMC	Blueprint Medicines Corp.	Health Care
DLTR	Dollar Tree, Inc.	Consumer Discretionary
FTCH	Farfetch Limited Class A	Communication Services
IAA	IAA, Inc.	Consumer Discretionary
PINS	Pinterest, Inc. Class A	Communication Services
TW	Tradeweb Markets, Inc. Class A	Communication Services
DELETIONS		SECTOR
AOS	A. O. Smith Corporation	Industrials
AGIO	Agios Pharmaceuticals, Inc.	Health Care
LSXMA	Liberty Media Corp. Series A Liberty SiriusXM	Communication Services

- We eliminated our small position in A. O. Smith on concerns around the company's visibility into its Chinese business.
- We exited our small position in **Liberty Sirius** to fund other opportunities

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

GICS Sector Diversification

SECTOR	MID-CAP GROWTH REP. ACCOUNT (%)	RUSSELL MIDCAP® GROWTH INDEX (%)	DIFFERENCE (%)	MID-CAP GROWTH REP. ACCOUNT (%)	
	Q2 '19	Q2 '19	Q2 '19	Q1 '19	Q2 '18
Communication Services	6.19	3.86	2.33	5.68	7.52
Consumer Discretionary	16.42	16.47	-0.05	13.77	13.80
Consumer Staples	3.02	2.95	0.07	2.68	4.49
Energy	--	1.33	-1.33	--	--
Financials	2.16	6.76	-4.60	2.30	3.10
Health Care	17.78	14.29	3.49	17.63	15.18
Industrials	18.88	15.74	3.14	20.14	22.76
Information Technology	27.84	32.78	-4.94	30.55	26.58
Materials	5.39	3.54	1.85	5.03	4.57
Real Estate	2.33	2.30	0.03	2.22	1.99

GICS Quarterly Attribution Detail by Sector

SECTOR	MID-CAP GROWTH REP. ACCOUNT		RUSSELL MIDCAP® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	6.21	5.69	3.93	7.69	0.09	-0.12	-0.04
Consumer Discretionary	14.70	4.90	16.30	6.50	-0.01	-0.24	-0.25
Consumer Staples	2.87	10.63	3.01	2.59	0.01	0.23	0.24
Energy	--	--	1.39	-4.50	0.15	--	0.15
Financials	2.23	1.38	6.72	10.53	-0.21	-0.20	-0.41
Health Care	17.07	8.72	13.99	3.94	-0.04	0.80	0.75
Industrials	20.67	14.00	15.81	6.30	0.04	1.52	1.56
Information Technology	28.87	6.43	33.04	4.52	0.05	0.59	0.64
Materials	5.12	18.09	3.51	4.94	--	0.63	0.64
Real Estate	2.26	12.61	2.29	6.20	--	0.15	0.16
Total	**100.00**	**8.86**	**100.00**	**5.41**	**0.09**	**3.35**	**3.45**

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Mid-Cap Growth 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)
2018	-0.7	-1.2	-4.8	11.5	12.8	25	0.2	164	30,529
2017	23.9	23.1	25.3	9.8	10.9	Five or fewer	N/A	48	33,155
2016	9.3	8.6	7.3	11.0	12.2	Five or fewer	N/A	2	30,417
2015	7.1	6.3	-0.2	10.7	11.3	Five or fewer	N/A	1	43,746
2014	8.8	8.0	11.9	N/A	N/A	Five or fewer	N/A	2	44,772
2013	38.3	37.3	35.7	N/A	N/A	Five or fewer	N/A	1	40,739
2012**	8.5	8.0	3.4	N/A	N/A	Five or fewer	N/A	1	26,794

*Return is for period March 1, 2012 through December 31, 2012.

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, 2018. 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 Mid Cap Growth Composite is comprised of all discretionary accounts with no material investment restrictions, which invest primarily in the common stock of U.S. medium market capitalization companies. The strategy seeks capital appreciation by managing a concentrated portfolio of companies that offer long-term growth potential. There is not a minimum account market value required for composite inclusion.
3. Effective 1/1/17, a significant cash flow policy was implemented for the Mid Cap Growth composite. Accounts with greater than or equal to 15% external cash flows will be removed from the composite for the entire month that the external cash flow occurred. The account will be added back to the composite the following month, if it meets the composite inclusion requirements. The external cash flow percentage is calculated using beginning market value.
4. Prior to September 1 2016 the composite was named Mid Cap Composite, there was no change in investment strategy.
5. This composite was created in 2014.
6. The benchmark is the Russell Mid Cap Growth – Total Return Index. The Russell Midcap Growth – Total Return Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap Growth – Total Return Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap growth market. The Russell Mid Cap Growth – Total Return 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.
7. 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.
8. 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: 0.90% on the first $25 million; 0.80% on the next $25 million; 0.70% on the next $50 million; and 0.60% 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.
9. 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, 2014, and prior, because 36 month returns for the composite were not available (NA.)
10. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
11. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
12. Past performance does not indicate future results.
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Composite performance is based on the Brown Advisory Mid-Cap Growth Composite and was obtained through FactSet®. All information and returns shown are as of 6/30/2019 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 Mid-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.

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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**: 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. **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** is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two. 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. 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. **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.