# MID-CAP GROWTH REVIEW AND OUTLOOK

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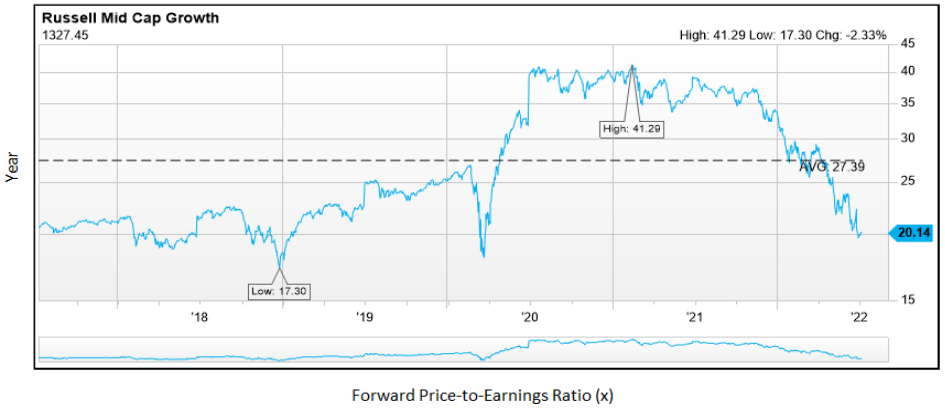
**Second Quarter 2022**

The Mid-Cap Growth strategy outpaced its benchmark, the Russell Midcap® Growth Index, during the second quarter thanks to positive allocation and stock selection effects in a brutal down market.

U.S. equities were routed in the second quarter. No market-cap range was spared—the Russell 2000® Growth Index, Russell Midcap® Growth Index and Top 200 indices each plummeted approximately 17%. "Growth"-style carveouts generally fared 5–10% worse than "value" across the cap spectrum as rising rates (the 10-year Treasury yield climbed 65 basis points during the quarter) continue to hurt "long-duration" assets. The Russell 2000 Growth Index posted its worst second quarter and first half of the year on record, dating back to 1979. Using additional index data beyond Russell, Jefferies estimates small-caps (core) had their fifth worst start to the year ever (-23.4%) and worst since they collapsed approximately 32% year to date through June 1973. Amid the 21% drop in the Russell Midcap Growth Index, from March through June, the consumer staples, utilities and energy sectors fell only single-digit percentages in the second quarter, while technology, telecom and consumer discretionary each posted losses greater than 25%.

Since mid-November 2021, the Russell 2000® Growth and Russell Midcap® Growth indices are off approximately 35%. Meanwhile, expectations for earnings growth for 2022 have generally risen. In fact, analysts still expect nearly 16% earnings growth this year for mid-cap growth companies. As shown below, this divergence caused a collapse in the Mid-Cap

**Russell Mid Cap Growth Index Historical Forward P/E, 2018 - 2022**




*Source: Factset, Date Range 12/31/17 – 6/30/22*

Growth benchmark's forward price-to-earnings ratio from 41x to a more typical 20x.

The equity market swoon doesn't just have investors in a dour mood. The market sell-off, coupled with rising interest rates and soaring inflation (May Consumer Price Index, +8.5%), has rapidly pushed U.S. consumer sentiment to the lowest level seen since the University of Michigan began its oft-cited survey in the early 1950s. This creates another conundrum, since consumer spending still rose year over year in May and unemployment remains near all-time lows at 3.6%. Of course, that all begs the obvious question: What comes next?

We wrote about early signs of consumer weakness in our last letter. Since then, we've seen myriad examples of waning demand for discretionary goods, and a weak consumer has become the consensus view. We highlighted comments from RH (a high-end furniture brand we follow but do not own that reports late in each calendar quarter) in April. RH shared lower full-year revenue guidance in early June (sales anticipated to be flat to +2% for the year), then subsequently lowered expectations to -2% to -5% not even a month later. Other discretionary retailers, such as Target (TGT, not owned), Ross Stores (ROST, not owned) and Five Below (FIVE, owned), lowered their outlooks as well, noting rising inventory levels. This weakness (plus inflation-induced cost pressure) seems somewhat anticipated by the market, with the share prices of several small and mid-cap retailers we follow cut in half from their 2021 highs. For example, RH is off approximately 67% from its mid-2021 highs, Burlington Stores (BURL, not owned) -61%, FIVE -52% and ROST -45%.

Our approach is always entirely bottom-up. Nonetheless, we form macro views aided mainly by hundreds of company conversations each year. Those can effect three-year projections and, thus, relative risk/reward profiles across the portfolio. Occasionally, when prices move rapidly in a divergent fashion, as they have in the past six months, this can cause changes in the portfolio that might look more top-down. Changes in consumer are one example. As discussed in April, in aggregate, we shifted capital away from multiple consumer holdings in the past 12 months as valuations remained fair or elevated, medium-term prospects diminished, and potential three-year IRRs looked attractive elsewhere. Now that prices have corrected meaningfully, we're starting to find bargains on our "bench" or moving through our new idea pipeline in consumer.

During the past six months, we have seen a similar dynamic in the semiconductor space, so we took similar action. We trimmed NXP Semiconductors, Marvell Technology and KLA Corporation mostly on strength, as three-year return potentials looked more attractive in software and other industries. Meanwhile, we've started to see cracks in what has been stellar demand for chips through the pandemic. Intel (INTC, not owned) noted weakness in the PC market. Industry rags cited Samsung's (SSNLF, not owned) bloated cellphone inventory. Taiwan Semiconductor (TSM, not owned) noted potential weakening in the cellphone market.

Finally, on July 1, Micron (MU, not owned) issued guidance below expectations, citing increasing headwinds in the smartphone and PC markets, as well as inventory issues in the enterprise server market. To be fair, these are consumer-oriented niches, and Micron noted strength in other semiconductor end markets (cloud, data center, 5G). Will weakness extend beyond consumer? We should learn more in the next three to six weeks, but we would be surprised if it did not.

In addition to trimming our three semiconductor holdings, we also eliminated four positions from the portfolio during the second quarter. We sold remaining small positions in Fair Isaac and National Vision to fund other opportunities. Zynga was acquired by Take-Two in May. Finally, we exited our small position in ACV Auctions (ACV) at a loss. Despite taking significant share in the industry, the online whole-car auction space is becoming more competitive, creating higher hurdles for ACV to scale profitably in the coming years. We also worry that ACV could concurrently face a significant headwind if used car prices normalize over the next several quarters.

We recycled capital from the trims and sales captioned above into several existing holdings on weakness during the last three months as well as into two new positions: Five Below (FIVE) and Paycom (PAYC).

Despite a net reduction in our aggregate exposure to consumer companies in the past few quarters, we took advantage of weakness in the space to build a small position in Five Below, a unique, potentially countercyclical, treasure hunt-style discount retailer targeting children and young adults. With its flexible merchandising business model focusing on extreme value, limited direct competition, low costs and high productivity, Five Below produces attractive returns on new stores. In fact, the company enjoys an industry-leading new-store payback period of seven to eight months with four-wall EBITDA margins of ~25% after one year.

Importantly, we think FIVE can triple its ~1,200-store count over the coming decade-plus, more than double per-share earnings in our typical three- to five-year time horizon, and slowly grow its return on capital as its store-base matures.

Five Below's same-store sales growth has stalled as it anniversaries a period during which its customers benefited from stimulus checks and child tax credits, and the company benefited specifically from growth in demand for popular toys, such as "poppers" and "squishmallows," a year ago. Not surprisingly, its valuation has contracted with other retailers'. While comp-store sales may be further pressured in the near term due to the same macro trends we've discussed, we think new initiatives, such as "Five Beyond" (which introduces "extreme value" items at price points above $5), buy-online-pickup-in-store (or BOPIS) and store remodels, could lift comps above the historical trend (to 3–5% per annum) as macro headwinds ease. Moreover, evidence suggests FIVE could prove countercyclical as consumers trade down and seek better value in a recession, if that is what ensues. For example, before FIVE was publicly traded, it posted same-store sales in the high single-digit percentage range in 2008 and +15% in 2009.

Paycom's cloud Human Capital Management (HCM) software is taking share from legacy payroll vendors like ADP with a superior product that extends well beyond traditional payroll and time and attendance modules. With a limited competitive set and only a single-digit percentage share of a large and growing market, we think Paycom could sustainably grow revenue at a 20%+ clip while already generating an attractive and expanding ~20% free cash flow margin.

Paycom targets midsized businesses, while other "next-gen" cloud competitors in the human capital management (HCM) space target large enterprises (Ceridian and Workday) and/or small businesses (Paylocity and Paycor). Moreover, we believe that Paycom offers a superior product for employees to directly manage aspects of their own payroll (Paycom's Beti product, which stands for better employee transaction interface). This increases employee satisfaction and decreases HR costs for the employer. Paycom charges a small premium directly for Beti, which it made mandatory for new accounts last year. However, we think the "Beti bundle" requires more modules per account, thus potentially providing another durable high-margin growth driver (through mix, not price) above and beyond solid secular trends.

While growth can be cyclical (it slowed to +14% in 2020) with employment, we found that typically, share prices for payroll vendors (such as Ultimate Software, previously held in our Small-Cap Growth strategy) bottom well before unemployment peaks after a swift period of valuation contraction. To that end, PAYC's price-to-earnings ratio was more than halved in the recent growth-stock drawdown, while fundamentals stayed strong. Moreover, the company benefits from rising rates via a return on customer funds held (or "float")—a potentially different setup that could buoy earnings compared to previous drawdowns.

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 end of the third quarter.

# SECTOR DIVERSIFICATION

**Second Quarter 2022**

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- The strategy is underweight technology. Within the sector, we are equal-weight semiconductors and underweight software and services. We note, however, that Veeva Systems, a software provider to pharmaceutical companies, is categorized in health care in the table to the right. Veeva trades with a high correlation to other software vendors and comprises approximately 2.75% of strategy assets.
- The strategy is underweight consumer discretionary. Within the sector, we are underweight travel, retailers, housing and media companies, and overweight services.
- We are overweight health care, with broad exposure to services, devices and biotechnology. Within the sector, the strategy is overweight medical devices.
- The strategy is approximately equal-weight industrials. Within the sector, in line with our history and in concert with our philosophy, we are underweight cyclicals and overweight services, including companies in the consumer finance subsector (such as Equifax, Shift4 and WEX).
- The strategy is underweight financials; KKR is our only holding in the sector. With no direct exposure, the strategy is underweight finance services, insurance companies and banks.
- Liberty Broadband is our only telecom holding.
- Waste Connections is our only utility holding.
- The strategy has no direct investments in energy. However, it is exposed to oil price fluctuations through fuel card operator WEX in industrials.

| ICB SECTOR | REPRESENTATIVE MID-CAP GROWTH ACCOUNT (%) | RUSSELL MIDCAP® GROWTH INDEX (%) | DIFFERENCE (%) | REPRESENTATIVE MID-CAP GROWTH ACCOUNT (%) | |
|---|---|---|---|---|---|
| | Q2'22 | Q2'22 | Q2'22 | Q1'22 | Q2'21 |
| Basic Materials | -- | 2.71 | -2.71 | -- | 1.85 |
| Consumer Discretionary | 15.02 | 18.87 | -3.85 | 19.12 | 21.72 |
| Consumer Staples | 3.17 | 3.51 | -0.34 | 2.57 | 2.57 |
| Energy | -- | 5.43 | -5.43 | -- | -- |
| Financials | 1.97 | 6.00 | -4.03 | 1.94 | 1.73 |
| Health Care | 23.95 | 15.09 | 8.86 | 21.73 | 21.94 |
| Industrials | 20.10 | 19.83 | 0.27 | 19.44 | 15.39 |
| Real Estate | 6.50 | 2.14 | 4.36 | 5.15 | 2.18 |
| Technology | 22.97 | 24.77 | -1.81 | 24.46 | 27.47 |
| Telecommunications | 2.09 | 1.23 | 0.86 | 1.88 | 1.92 |
| Utilities | 4.23 | 0.32 | 3.91 | 3.72 | 2.80 |
| Unassigned | -- | 0.09 | -0.09 | -- | 0.44 |

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. The portfolio information provided is based on a representative Mid-Cap Growth account and is provided as Supplemental Information. Sector diversification excludes cash and cash equivalents. Sectors are based on the ICB Sector Classification system. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# ATTRIBUTION DETAIL BY SECTOR

Second Quarter 2022

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| | REPRESENTATIVE MID-CAP GROWTH ACCOUNT | | RUSSELL MIDCAP GROWTH INDEX | | ATTRIBUTION ANALYSIS | | |
|---|---|---|---|---|---|---|---|
| ICB SECTOR | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | ALLOCATION EFFECT (%) | SELECTION & INTERACTION EFFECT (%) | TOTAL EFFECT (%) |
| Basic Materials | -- | -- | 1.96 | -14.79 | -0.12 | -- | -0.12 |
| Consumer Discretionary | 17.04 | -24.76 | 19.03 | -25.07 | 0.19 | -0.004 | 0.19 |
| Consumer Staples | 3.05 | -3.66 | 2.56 | -2.87 | 0.06 | -0.02 | 0.04 |
| Energy | -- | -- | 4.15 | -7.92 | -0.53 | -- | -0.53 |
| Financials | 2.04 | -20.61 | 5.83 | -16.56 | -0.16 | -0.08 | -0.24 |
| Health Care | 22.20 | -19.05 | 15.14 | -18.75 | 0.27 | -0.07 | 0.20 |
| Industrials | 19.82 | -16.74 | 19.07 | -17.93 | 0.02 | 0.21 | 0.23 |
| Real Estate | 5.83 | -7.87 | 3.02 | -18.37 | 0.08 | 0.56 | 0.64 |
| Technology | 24.00 | -28.12 | 27.49 | -26.60 | 0.12 | -0.35 | -0.23 |
| Telecommunications | 1.97 | -13.36 | 1.38 | -27.61 | -0.03 | 0.27 | 0.24 |
| Utilities | 4.05 | -11.11 | 0.19 | -4.85 | 0.60 | -0.25 | 0.35 |
| [Unassigned] | -- | -- | 0.18 | -7.55 | -0.05 | -- | -0.05 |
| **Total** | **100.00** | **-20.35** | **100.00** | **-21.07** | **0.45** | **0.27** | **0.72** |

- Both allocation and stock selection effects added to the strategy's relative performance during the quarter.
- SBA's cell tower leasing business and CoStar's commercial real estate data offering (both categorized in real estate above) proved resilient in the drawdown; Waste Connections (listed in utilities) held its ground as well.
- Our lack of direct energy exposure hurt relative returns by approximately 50 bps as the price of oil climbed approximately 5% from the end of March through June.

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# TOP FIVE CONTRIBUTORS TO RETURN

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**Second Quarter 2022 Representative Mid-Cap Growth Account Top Five Contributors**

| | NAME | DESCRIPTION | AVERAGE WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|---|
| BHVN | Biohaven Pharmaceutical Holding Company Ltd. | Operates as a biopharmaceutical company that develops drugs to treat neurological and neuropsychiatric diseases | 0.79 | 22.83 | 0.28 |
| ARGX | argenx SE ADR | Manufactures antibody-based medicines | 0.89 | 20.10 | 0.20 |
| BF.B | Brown-Forman Corporation Class B | Engages in the production and marketing of consumer beverage alcohol brands | 0.75 | 4.98 | 0.04 |
| G | Genpact Limited | Engages in business process management, outsourcing, shared services and information outsourcing | 2.65 | -2.36 | 0.00 |
| VEEV | Veeva Systems Inc Class A | Provides industry-specific, cloud-based software solutions for the life sciences industry | 2.29 | -6.56 | -0.01 |

- Pfizer is set to acquire Biohaven's CGRP franchise for a nice premium.
- The launch for argenx's Vyvgart for the treatment of myasthenia gravis is ramping faster than expected. Moreover, recent data indicates that the subcutaneous formulation of Vyvgart works as well as the IV formulation, and the drug also showed success in a late-stage trial treating patients with immune thrombocytopenia, further validating its blockbuster potential.
- Brown-Forman proved resilient, along with other consumer staples, during equity-market weakness in the second quarter. Moreover, BF's sector-leading stock performance was driven by sustained momentum in its spirits brands (including another quarter of strong double-digit revenue growth) and signs of latent pricing power being put to use in this inflationary environment.
- Genpact reported strong top-line and bottom-line performance in the first quarter of 2022, both ahead of expectations, and management raised full-year guidance. There continues to be healthy demand for business process outsourcing, and management has been able to navigate wage inflationary pressures.
- Veeva posted a strong forecasted first quarter of 2023 with all key metrics tracking ahead of expectations. Management raised 2023 guidance and indicated a strong new business pipeline for the remainder of the year.

# BOTTOM FIVE CONTRIBUTORS TO RETURN

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**Second Quarter 2022 Representative Mid-Cap Growth Account Bottom Five Contributors**

| | NAME | DESCRIPTION | AVERAGE WEIGHT (%) | RETURN (%) | CONTRIBUTION TO RETURN (%) |
|---|---|---|---|---|---|
| TFX | Teleflex Incorporated | Provides medical devices for critical care, urology and surgery | 3.40 | -30.56 | -1.10 |
| BFAM | Bright Horizons Family Solutions, Inc. | Provides child care and educational services | 2.59 | -36.62 | -0.99 |
| MTCH | Match Group, Inc. | Operates an online dating platform | 2.70 | -35.43 | -0.98 |
| MRVL | Marvell Technology, Inc. | Manufactures semiconductor products | 2.15 | -39.57 | -0.97 |
| DXCM | DexCom, Inc. | Manufactures and markets medical devices and glucose monitoring systems | 2.04 | -41.90 | -0.90 |

- Despite posting commendable first-quarter results and messaging an attractive long-term growth and margin profile at its analyst day, Teleflex shares were weak during the quarter largely due to fears of hospital staff shortages and lingering COVID-19 effects in the medical system.
- Bright Horizon's share price took a hit when the company reported a disappointing rebound in utilization of its child care centers, which were expected to snap back quicker post-COVID-19.
- Match Group underperformed during the quarter as user growth fell a bit below expectations. The company also announced a new CEO, Bernard Kim, who will be taking over for Shar Dubey, who was only CEO for two years.
- Marvell reported strong results in the quarter, and management's guidance was similarly positive for the July quarter. Nonetheless, Marvell's shares traded off with other high-growth/high-multiple stocks.
- DexCom underperformed in the quarter despite reporting first-quarter results ahead of expectations, mainly due to the broader market sell-off in high-growth/high-multiple stocks. DexCom's share price was further pressured by press headlines of possible merger talks with pump manufacturer Omnipod, which were subsequently denied, and from the market approval of a comparable competitor product.

# ADDITIONS

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**Second Quarter 2022 Representative Mid-Cap Growth Account Portfolio Activity**

- Despite a net reduction in our aggregate exposure to consumer companies in the past few quarters, we took advantage of weakness in the space to build a small position in Five Below, a unique, potentially countercyclical, treasure hunt-style discount retailer targeting children and young adults. With its flexible merchandising business model focusing on extreme value, limited direct competition, low costs and high productivity, Five Below produces attractive returns on new stores. In fact, the company enjoys an industry-leading new-store payback period of seven to eight months with four-wall EBITDA margins of ~25% after one year. Importantly, we think FIVE can triple its ~1,200-store count over the coming decade-plus, more than double per-share earnings in our typical three- to five-year time horizon, and slowly grow its return on capital as its store-base matures.

- Paycom's cloud Human Capital Management software is taking share from legacy payroll vendors like ADP with a superior product that extends well beyond traditional payroll and time and attendance modules. With a limited competitive set and only a single-digit percentage share of a large and growing market, we think Paycom could sustainably grow revenue at a 20%+ clip while already generating an attractive and expanding ~20% free cash flow margin.

| | ADDITIONS | GICS SECTOR |
|---|---|---|
| FIVE | Five Below, Inc. | Consumer Discretionary |
| PAYC | Paycom Software, Inc. | Information Technology |

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. The portfolio information provided is based on a representative Mid-Cap Growth account and is provided as Supplemental Information. Sectors are based on the Global Industry Classification Standard (GICS) classification system. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# DELETIONS

**Second Quarter 2022 Representative Mid-Cap Growth Account Portfolio Activity**

- Despite taking meaningful share in the industry, the online whole-car auction space is becoming more competitive, and ACV Auctions could face a significant headwind as used car prices normalize over the next several quarters.
- We sold small positions in National Vision and Fair Isaac to fund other opportunities.
- Zynga was acquired by Take-Two in May for an all-in $12.7 billion enterprise value, a 64% premium from day prior to the announcement.

| | DELETIONS | GICS SECTOR |
|---|---|---|
| ACVA | ACV Auctions, Inc. Class A | Consumer Discretionary |
| FICO | Fair Isaac Corporation | Information Technology |
| EYE | National Vision Holdings, Inc. | Consumer Discretionary |
| ZNGA | Zynga Inc. Class A | Communication Services |

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# PORTFOLIO CHARACTERISTICS

**Second Quarter 2022**

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| | REPRESENTATIVE MID-CAP GROWTH ACCOUNT | RUSSELL MIDCAP GROWTH INDEX |
|---|---|---|
| Number of Holdings | 55 | 409 |
| Dividend Yield (%) | 0.3 | 0.7 |
| P/E Ratio FY2 Est. (x) | 22.2 | 16.8 |
| Top 10 Equity Holdings (%) | 32.2 | 11.7 |
| Active Share (%) | 88.1 | -- |
| Market Capitalization ($ B) | | |
| Weighted Average | 20.7 | 21.5 |
| Maximum | 59.1 | 46.5 |
| Minimum | 1.0 | 0.3 |

Source: FactSet. The portfolio information provided is based on a representative Mid-Cap Growth account and is provided as Supplemental Information. Portfolio statistics and characteristics exclude cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# SECTOR DIVERSIFICATION

**Second Quarter 2022 ICB Sectors as of 06/30/2022**

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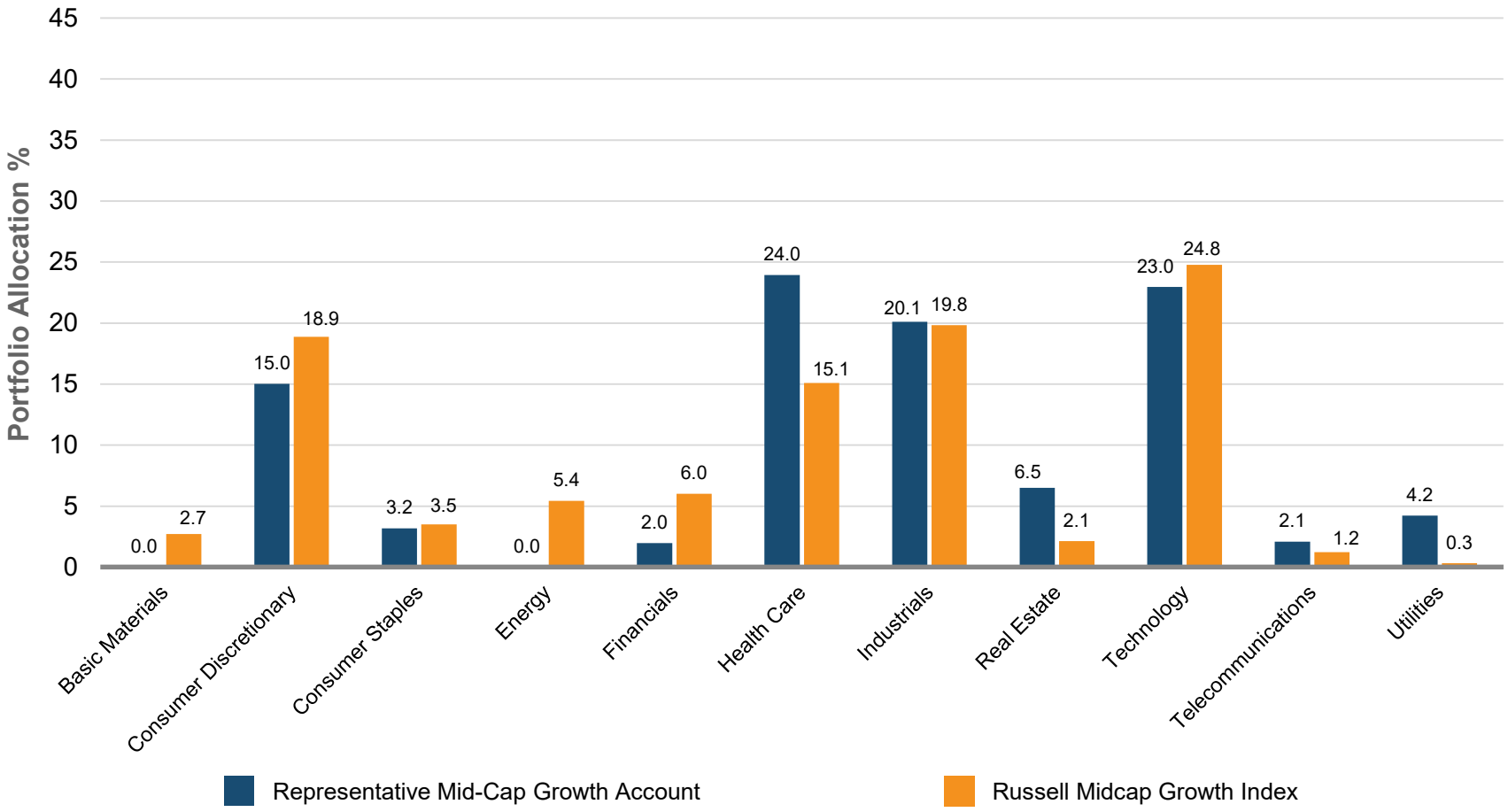


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# SECTOR DIVERSIFICATION

**Second Quarter 2022**

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| GICS SECTOR | REPRESENTATIVE MID-CAP GROWTH ACCOUNT (%) | RUSSELL MIDCAP® GROWTH INDEX (%) | DIFFERENCE (%) | REPRESENTATIVE MID-CAP GROWTH ACCOUNT (%) | |
|---|---|---|---|---|---|
| | Q2'22 | Q2'22 | Q2'22 | Q1'22 | Q2'21 |
| Communication Services | 7.05 | 5.08 | 1.97 | 9.09 | 15.83 |
| Consumer Discretionary | 12.04 | 14.01 | -1.97 | 14.48 | 14.85 |
| Consumer Staples | 3.17 | 3.02 | 0.15 | 2.57 | 2.57 |
| Energy | -- | 4.03 | -4.03 | -- | -- |
| Financials | 1.97 | 5.78 | -3.81 | 1.94 | 1.73 |
| Health Care | 23.95 | 16.43 | 7.53 | 21.73 | 21.81 |
| Industrials | 20.81 | 15.27 | 5.55 | 18.37 | 12.04 |
| Information Technology | 24.75 | 29.57 | -4.82 | 26.03 | 24.68 |
| Materials | 3.06 | 4.48 | -1.43 | 3.12 | 4.32 |
| Real Estate | 3.19 | 2.00 | 1.19 | 2.67 | 2.18 |
| Utilities | -- | 0.33 | -0.33 | -- | -- |

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. The portfolio information provided is based on a representative Mid-Cap Growth account and is provided as Supplemental Information. Sector diversification excludes cash and cash equivalents. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# ATTRIBUTION DETAIL BY SECTOR

**Second Quarter 2022**

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| | REPRESENTATIVE MID-CAP GROWTH ACCOUNT | | RUSSELL MIDCAP GROWTH INDEX | | ATTRIBUTION ANALYSIS | | |
|---|---|---|---|---|---|---|---|
| GICS SECTOR | AVERAGE WEIGHT (%) | RETURN (%) | AVERAGE WEIGHT (%) | RETURN (%) | ALLOCATION EFFECT (%) | SELECTION & INTERACTION EFFECT (%) | TOTAL EFFECT (%) |
| Communication Services | 7.52 | -25.77 | 2.79 | -27.96 | -0.40 | 0.21 | -0.19 |
| Consumer Discretionary | 13.59 | -28.26 | 15.83 | -24.55 | 0.12 | -0.62 | -0.50 |
| Consumer Staples | 3.05 | -3.66 | 2.34 | -2.98 | 0.10 | -0.02 | 0.08 |
| Energy | -- | -- | 2.76 | -6.04 | -0.41 | -- | -0.41 |
| Financials | 2.04 | -20.61 | 5.73 | -16.16 | -0.17 | -0.09 | -0.26 |
| Health Care | 22.23 | -19.05 | 16.72 | -17.77 | 0.25 | -0.25 | -- |
| Industrials | 19.85 | -13.89 | 15.86 | -18.23 | 0.13 | 0.80 | 0.92 |
| Information Technology | 25.57 | -22.93 | 33.08 | -25.47 | 0.30 | 0.68 | 0.98 |
| Materials | 3.08 | -23.36 | 2.29 | -13.67 | 0.07 | -0.31 | -0.25 |
| Real Estate | 3.07 | -6.77 | 2.37 | -20.15 | 0.01 | 0.37 | 0.37 |
| Utilities | -- | -- | 0.23 | -5.56 | -0.03 | -- | -0.03 |
| **Total** | **100.00** | **-20.35** | **100.00** | **-21.07** | **-0.03** | **0.75** | **0.72** |

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. The portfolio information provided is based on a representative Mid-Cap Growth account and is provided as Supplemental Information. 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. Past performance is not indicative of future results. Sectors are based on the Global Industry Classification Standard (GICS®) classification system. Sector attribution excludes cash and cash equivalents. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# SECTOR DIVERSIFICATION

**Second Quarter 2022 GICS Sectors as of 06/30/2022**

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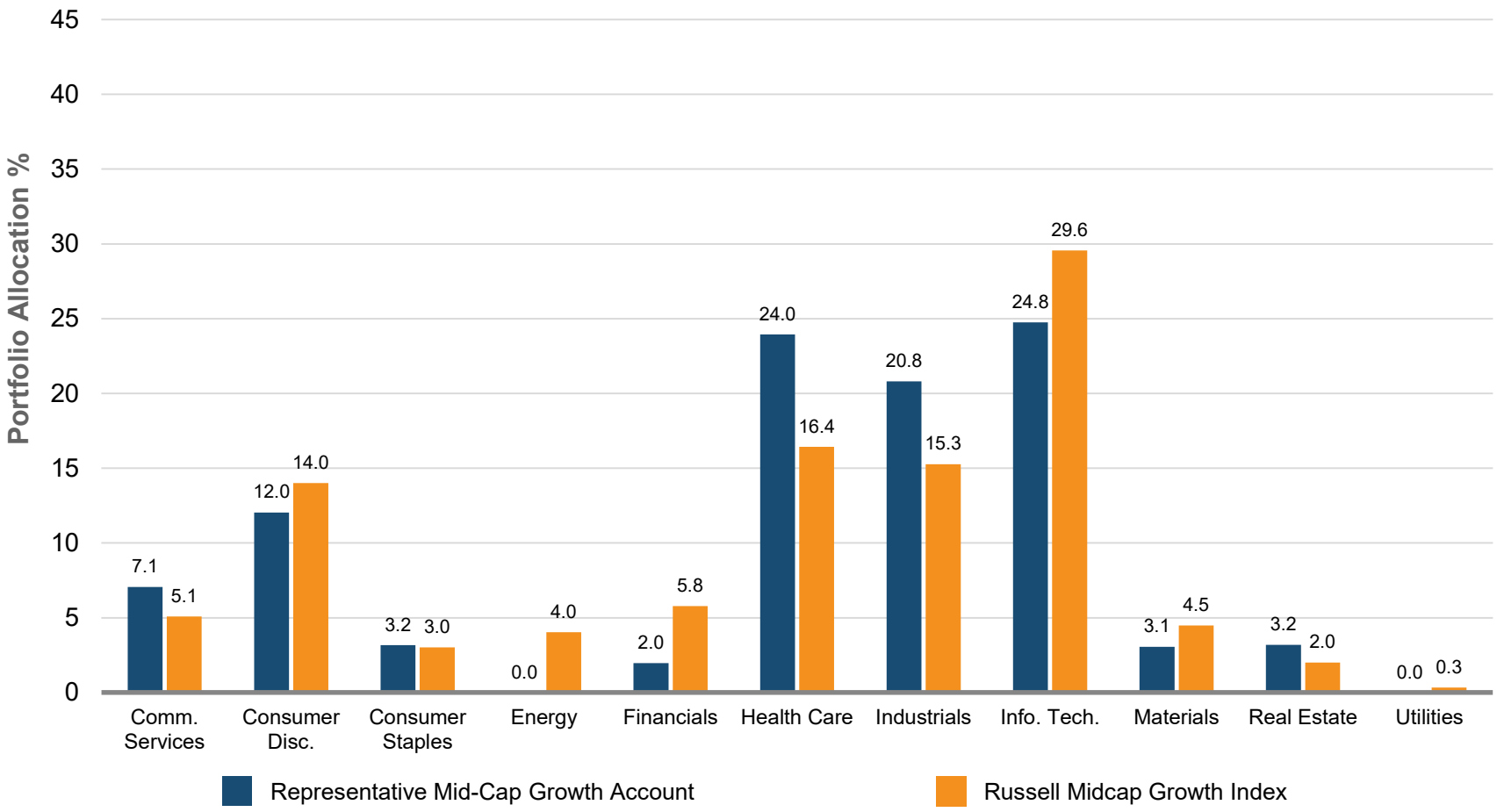


Source: FactSet. The portfolio information provided is based on a representative Mid-Cap Growth account and is provided as Supplemental information. Sector diversification excludes cash and cash equivalents. Sectors are based on the Global Industry Classification System (GICS). Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

# COMPOSITE PERFORMANCE

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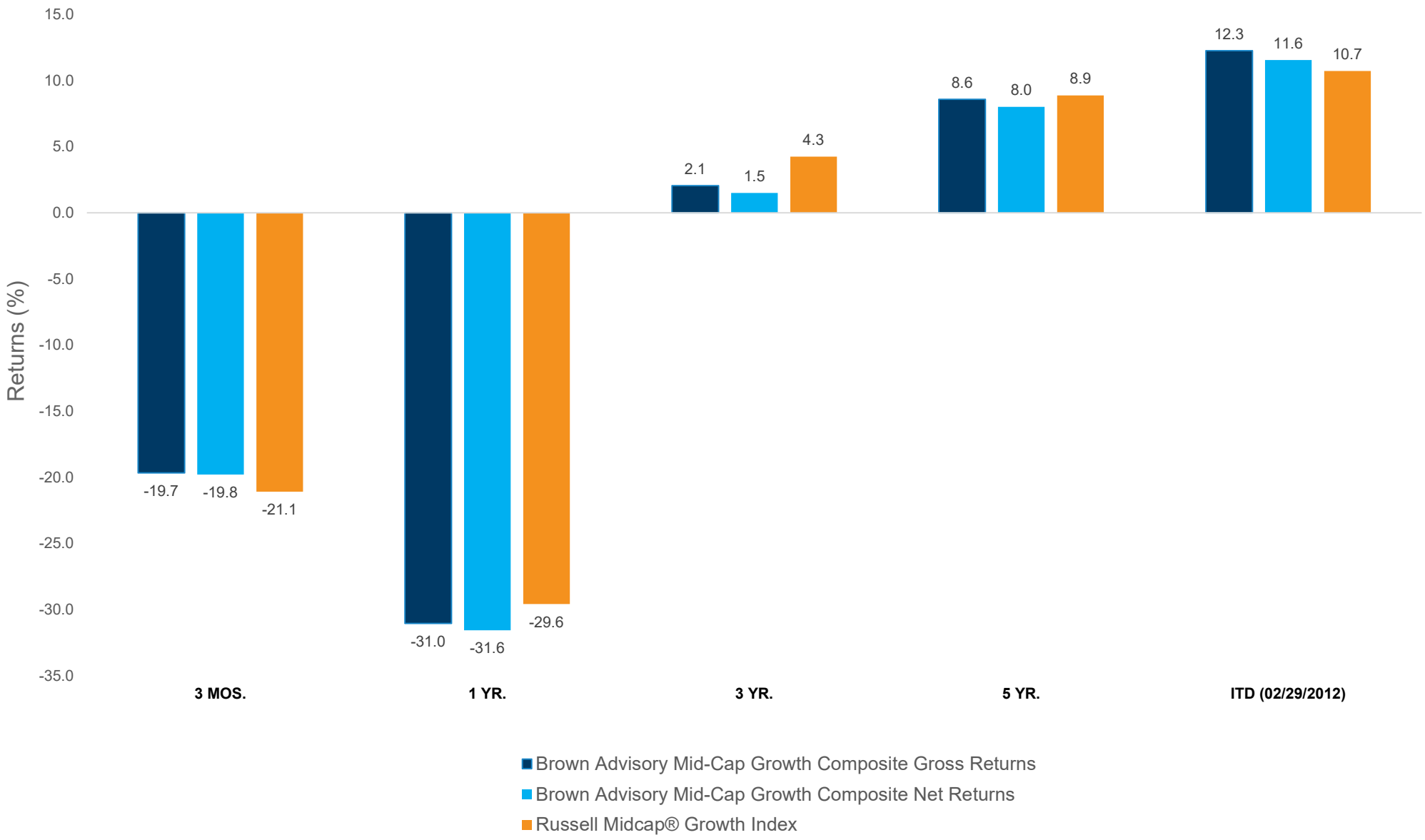
**Second Quarter 2022 as of 06/30/2022**




Source FactSet. All returns greater than one year are annualized. Past performance is not indicative of future results. The composite performance shown above reflects the Mid-Cap Growth 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 Small-Cap Growth disclosure statement at the end of this presentation for a GIPS compliant presentation.

# TOP 10 PORTFOLIO HOLDINGS

**Representative Mid-Cap Growth Account as of 06/30/2022**

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| TOP 10 HOLDINGS | % OF PORTFOLIO |
|---|---|
| Waste Connections Inc | 4.1 |
| Edwards Lifesciences Corp. | 3.5 |
| Teleflex, Inc. | 3.4 |
| CoStar Group, Inc. | 3.2 |
| SBA Communications Corp. | 3.1 |
| Ball Corp. | 2.9 |
| Genpact Ltd. | 2.8 |
| Veeva Systems, Inc. Cl A | 2.7 |
| IAA, Inc. | 2.7 |
| Bright Horizons Family Solution, Inc. | 2.6 |
| **Total** | **30.9** |

Source: FactSet. The top 10 Holdings include Cash & Equivalents which was 4.2% as of 06/30/2022. 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. Portfolio information is based on a representative Mid-Cap Growth account, and is provided as Supplemental Information. Figures in table may not total due to rounding. Please see disclosure statement at the end of this presentation for additional information.

# DISCLOSURES

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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.



An investor cannot invest directly into an index.

Figures shown on sector diversification and quarterly attribution by detail slides may not total due to rounding.



The **Russell Midcap® Growth Index** is a market capitalization weighted index representing the smallest 800 companies in the Russell 1000 Index that exhibit growth characteristics. The **Russell 2000® Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 2000® Growth Index** is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. Russell® and it's indexes are a trademark/service marks of the London Stock Exchange. The indices are completely reconstituted annually. Russell® and other service marks and trademarks related to the Russell indexes are trademarks of the London Stock Exchange Group Companies.

The **Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. Changes in the CPI are used to assess price changes associated with the cost of living.

# TERMS AND DEFINITIONS

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All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted.

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).

The **internal rate of return** (IRR) is a metric used in financial analysis to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

**EBITDA**, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances.

**Free cash flow** (FCF) represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets.

**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.

**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.

**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.

**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); Maximum and Minimum: the market caps of the largest and smallest companies, respectively, in the portfolio.

All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio's holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average.

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# MID-CAP GROWTH COMPOSITE

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| 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)* |
|---|---|---|---|---|---|---|---|---|---|
| 2021 | 7.2 | 6.6 | 12.7 | 21.5 | 20.2 | 75 | 0.4 | 752 | 79,715 |
| 2020 | 34.0 | 33.5 | 35.6 | 22.1 | 21.5 | 70 | 0.8 | 758 | 59,683 |
| 2019 | 39.4 | 38.7 | 35.5 | 13.5 | 13.9 | 34 | 0.2 | 337 | 42,426 |
| 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, 2020. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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 (the 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. Prior to September 1, 2016 the Composite was named Mid Cap Composite. There was no change in investment strategy.
4. Effective January 1, 2017, a significant cash flow policy was implemented for the 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 accounts 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.
5. The Composite was created in 2014. The Composite inception date is March 1, 2012.
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 composite dispersion presented is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period. 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. Certain accounts in the Composite pay asset-based custody fees that include commissions. For these accounts, gross and net returns are also net of custody fees. Other expenses can reduce returns to investors. The standard management fee schedule is as follows: For accounts below $150 million, 0.75% on the first $50 million; 0.50% on the next $50 million; and 0.475% on the next $50 million. For accounts over $150 million, 0.58% on the first $150 million; 0.45% on the next $100 million; 0.425% on the next $250 million; and 0.35% on the balance over $500 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 investment management fee for the Investor Shares of the Brown Advisory Mid-Cap Growth Fund (the Fund), which is included in the Composite, is 0.65%, and represents the highest fee charged excluding Advisor Shares. The total expense ratio for the Investor Shares of the Fund as of the most recent fiscal year end (June 30, 2021) was 0.76%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
10. The investment management fee for the Dollar Class B Acc Shares of the Brown Advisory US Mid-Cap Growth Fund (the UCITS), which is included in the composite, is 0.75%. The total expense ratio for the Dollar Class B Acc Shares of the UCITS as of the most recent fiscal year end (October 31, 2021) was 0.88%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
11. 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 (N/A.)
12. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
13. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
14. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
15. Past performance is not indicative of future results.
16. This is not an offer to sell securities. That may only be accomplished by the issuance of a private offering memorandum/subscription documents.
17. 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.