

First Quarter 2019

COMPOSITE PERFORMANCE(%)

	COMPOSITE GROSS OF FEES	COMPOSITE NET OF FEES	RUSSELL 2000® VALUE INDEX
3 MOS.	12.75	12.56	11.93
1 YR.	0.93	0.12	0.17
3 YR.	11.34	10.45	10.86
5 YR.	7.45	6.60	5.59
ITD (12/31/2008)	14.74	13.70	11.35

The composite performance shown above reflects the Brown Advisory Small-Cap Fundamental Value 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

	SMALL-CAP FUND. VALUE REP. ACCT.	RUSSELL 2000® VALUE INDEX
Weighted Avg. Market Cap.	\$2.4B	\$2.1B
Weighted Median Market Cap.	\$2.0B	\$1.9B
Dividend Yield	1.9%	2.2%
Portfolio Turnover (3 YR Avg.)	36.4%	--

REP. ACCOUNT TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Cash & Equivalents	4.4
Nexstar Media Group, Inc.	4.2
Albany International Corp. CI A	4.0
Extended Stay America, Inc.	3.6
Eagle Materials, Inc.	2.9
Primerica, Inc.	2.5
Simpson Manufacturing Co., Inc.	2.4
MAXIMUS, Inc.	2.4
MRC Global, Inc.	2.3
Assurant, Inc.	2.3
TOTAL	31.0



J. DAVIDSCHUSTER
Portfolio Manager



MICHAEL POGGI, CFA
Associate Portfolio Manager

Review & Outlook

The first quarter of 2019 saw a sharp rebound in small-cap company share prices. This snap back followed a particularly challenging fourth quarter in which fears of a rapidly slowing economy weighed on share prices. More positive commentary from management teams, along with the potential for relief on the U.S./China trade issue shifted the tide, with small-cap shares up over 17% by the middle of February, along with the broader markets. Small-cap shares weakened during the second half of the quarter, with the Russell 2000® Value Index ending up 11.9%, which marks the second best quarter over the past five years.

For the quarter, the Brown Advisory Small-Cap Fundamental Value strategy performed well both on an absolute and relative basis. During the significant run-up at the beginning of the quarter, the strategy trailed materially on a relative basis. Relative performance improved considerably, as the Index reversed course in the back half of the quarter. We were also pleased with the operating performance of our portfolio investments during the quarter.

While every sector of the Index posted positive performance, energy and information technology were the strongest individual sectors by over 600 basis points each. The one surprise for the quarter was the relative weakness (positive, but trailing the Index) of the health care sector, which along with information technology has led during strong positive market moves over the past several years. Our performance was generally positive across the board, except for information technology and energy, which were both sizable detractors for the quarter. Within the information technology sector, **SMART Global's** Brazilian business suffered along with lower memory prices, which caused its share price to decline materially despite the already low valuation and sizable free cash flow generation. Within the energy sector, both of the spin-offs from **Linn Energy**, **Roan Resources** and **Riviera Resources**, traded down despite higher energy prices. We continue to like the cash flow profiles of both companies, especially compared to many of the investment opportunities in the energy sector, although that differentiation is clearly not appreciated by the market. As mentioned, our positive performance was broadly spread across the remaining sectors. Incidentally, two of our investments from the fourth quarter (**Eagle Materials** and **Essential Properties**) were sizable positive contributors to overall performance.

There were several notable corporate actions during the quarter. **Nexstar** announced its planned divestitures in connection with its anticipated close of Tribune later in 2019. The sales prices on the divestitures were much higher than the market's assumption, which, along with solid operating performance, drove Nexstar's share price higher. **TCF Financial** announced a merger of equals with **Chemical Financial** in January, and the market responded positively to the terms and valuation. We agreed that the transaction made sense on paper, but we did not like the underlying chemical business and used the strength in the shares to sell our position. Following a very active fourth quarter, investment activity during the first quarter was light. We made one investment during the quarter (versus eight in the fourth quarter).

Even after a decade-long bull market in small-cap shares, the fourth quarter demonstrated that volatility creates opportunities. With the pullback at the end of the first quarter, we are starting to see more new opportunities emerge. As the market continues to debate the broader macro issues, we will continue to focus on individual company performance, cash flows and valuation. We will not predict (or even pretend to know) when the next recession will emerge, but we do believe that our opportunistic approach and focus on valuation and cash flows will continue to generate attractive, long-term risk-adjusted returns. [12](#)

Sector Diversification

- There was very little change in the first quarter as a result of minimal trading activity.
- Materials increased as we built our position in Eagle Materials.

SECTOR	SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT (%)		RUSSELL 2000® VALUE INDEX (%)	DIFFERENCE (%)	SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT (%)	
	Q1 '19	Q1 '19	Q1 '19		Q4 '18	Q1 '18
Communication Services	7.86	3.19	4.67	6.88	7.79	
Consumer Discretionary	16.62	9.14	7.48	16.81	11.19	
Consumer Staples	2.07	2.61	-0.54	1.80	1.08	
Energy	3.77	5.72	-1.95	4.58	6.17	
Financials	30.01	28.41	1.61	30.77	29.25	
Health Care	3.18	4.29	-1.10	3.18	2.41	
Industrials	18.78	11.26	7.51	18.62	19.43	
Information Technology	7.08	11.54	-4.46	8.29	10.64	
Materials	3.52	4.32	-0.81	2.29	1.68	
Real Estate	6.30	12.23	-5.93	5.88	9.74	
Utilities	0.82	7.31	-6.49	0.90	0.62	

Quarterly Attribution Detail by Sector

- There was positive performance across multiple sectors in the first quarter.
- Communication services and industrials were the best performing sectors for the strategy during the quarter, with Nexstar in communication services continuing to drive performance in a continuation from the fourth quarter.
- Energy and information technology were the worst performers for the quarter but were the strongest sectors for the index. Energy fell due to lackluster share performance from Roan Resources and Riviera Resources, while SMART Global Holdings weighed on our information technology sector performance.

SECTOR	SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT		RUSSELL 2000® VALUE INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	7.18	28.91	3.15	14.44	0.12	0.87	0.99
Consumer Discretionary	16.84	11.45	9.24	8.34	-0.23	0.40	0.17
Consumer Staples	2.05	30.66	2.58	7.84	0.04	0.42	0.46
Energy	4.20	-7.48	5.64	18.50	-0.05	-1.10	-1.15
Financials	30.80	9.23	29.28	8.08	-0.03	0.29	0.26
Health Care	3.18	12.80	4.31	9.10	0.04	0.11	0.15
Industrials	18.33	16.73	11.59	10.69	-0.07	0.97	0.90
Information Technology	7.54	1.51	11.17	18.81	-0.19	-1.22	-1.41
Materials	2.85	33.88	4.25	16.95	-0.07	0.44	0.37
Real Estate	6.19	31.66	11.86	16.81	-0.23	0.77	0.54
Utilities	0.84	4.08	6.92	10.58	0.15	-0.04	0.12
Total	100.00	13.34	100.00	11.93	-0.51	1.92	1.41

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

- Nexstar rose on strong earnings results and an encouraging outlook. Additionally, in March, the company announced its planned divestitures in conjunction with its purchase of Tribune, expected to close in late 2019. The sale price of divested stations and seller's multiple were both above initial expectations.
- **MRC Global** bounced back after a tough fourth quarter and was a leading contributor to first-quarter performance. The company reported in line fourth quarter results in early February but finally showed the positive turn in operating cash flow and net leverage we were looking for, as working capital needs have begun to slow. More importantly, the company took advantage of the price weakness during the fourth quarter and repurchased 7% of the outstanding stock in just three months. MRC gave favorable free cash flow guidance for 2019 and still has another \$50 million left on its current buyback authorization.
- Eagle Materials performed well in the first quarter on the news that a large activist hedge fund has purchased a 9% stake and would like to see the company broken up and pieces of the business sold off. While we do not necessarily agree that the company needs to be broken up, we do believe that Eagle's collection of assets continues to be meaningfully undervalued in the market, which led to our initial purchase in the fourth quarter of 2018. We think that Eagle's core business has a number of favorable catalysts in front of it, including a tightening cement market, favorable input costs in its wallboard business and peaking capex that should lead to accelerating free cash flow in 2019.
- In its third quarter as a public company, Essential Properties delivered another set of consistent results, with its 677-property net lease portfolio fully leased and the deployment of over \$100 million into acquisitions in the quarter, consistent with its investment philosophy and expected pace. Further, with the stock rallying on falling interest rates throughout the quarter, the company decided to issue equity in mid-March to fund additional acquisitions it has in the pipeline for early 2019; the offering was well-executed, raising approximately \$230 million at \$17.50, a price that was accretive to our estimate of NAV prior to the deal.
- **Core-Mark** reported better-than-expected fourth-quarter results and outlook for 2019, as the company continued to see both strong momentum in its non-cigarette business and cigarette volumes that beat expectations.
- **Hudson Group**, a travel retail company, reported weak results in early January that were impacted by a slowdown in duty-free spending by Chinese tourists during the fourth quarter and a downtick in new business wins after a period of better-than-average growth. Hudson's duty-free business represents about 25% of total revenue, with the rest coming from more stable convenience-oriented categories, which have performed in line with our expectations. The softness in new business wins (expansions into new airport locations) is expected to be at the lower end of the company's long-term range in 2019, a disappointment that has damaged the company's reputation early in its life as a public company. As a result, the company's board implemented a change in CEO that was announced during the quarter; the new CEO is a long time Hudson executive, Roger Fordyce, and we believe this change signals a proper urgency to reaccelerate the business back to its expected growth rate and to refocus the company on the long and attractive runway ahead of it in travel retail.
- SMART Global fell in the quarter, as falling memory prices and a last-minute change in the local content rules for 2019 Brazil memory modules drove EBITDA estimates lower for the year. Due to volatility in the Brazilian business, we have kept our position size small. Outside Brazil, SMART's businesses performed largely in line with expectations.

SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
NXST	Nexstar Media Group, Inc. Class A	3.79	38.55	1.25
MRC	MRC Global Inc.	2.50	42.93	0.95
EXP	Eagle Materials Inc.	2.39	38.13	0.77
EPRT	Essential Properties Realty Trust, Inc.	2.09	42.55	0.76
CORE	Core-Mark Holding Company, Inc.	1.42	60.15	0.69
SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT BOTTOM FIVE CONTRIBUTORS				
HUD	Hudson Ltd. Class A	1.48	-19.83	-0.41
SGH	SMART Global Holdings, Inc.	0.72	-35.35	-0.29
RVRA	Riviera Resources, Inc.	1.83	-11.46	-0.22
ROAN	Roan Resources, Inc.	1.06	-27.09	-0.21
DBI	DSW Inc.	1.73	-9.03	-0.10

- Riviera Resources underperformed during the first quarter despite reporting favorable fourth-quarter results and closing a large asset sale. We continue to believe that Riviera's current asset base is undervalued in the market today and the company's free cash flow generation, net cash position and large share repurchase authorization (\$78 million) make it a unique opportunity within the energy space.
- Roan Resources was a detractor during the first quarter after the company reduced its production and capex guidance for 2019. We think this is a prudent move, given the current volatility in the oil market. Current energy investor sentiment has shifted to favor free cash flow over production growth, and with the new guidance, Roan should be able to materially grow production during 2019 and be free cash flow positive by the fourth quarter.
- **DSW** reported fourth-quarter earnings that showed strong operating results in its core DSW retail business, but there was investor confusion surrounding the impact of the company's recent acquisitions of the Camuto brands as well as stores in Canada. Further, the company's results were also impacted by an unfavorable 53rd week year-over-year comparison. The stock has recovered 15% since its earnings report, as management provided updated detail from its fourth-quarter earnings.

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Portfolio Activity

- **Deluxe Corporation's** legacy business—manufacturing and selling checks—generates good cash flow and is declining at a predictable rate. The company is diversifying away from checks, and marketing solutions which now makes up more than 40% of the company's revenue and 25 to 30% of cash flow. A new CEO is taking a fresh look at the company's markets and competitive positioning, which may lead to the exit of less attractive businesses and greater focus on the strongest ones. The company returns cash to shareholders through both repurchases and a regular dividend, and we think valuation is attractive today at 5.5x EBITDA and a midteens free cash flow yield.
- In late January, TCF Financial announced a merger of equals with Detroit-based Chemical Financial, which increased the combined company's pro forma market cap to \$6.9 billion. Although the company emphasized the pro forma valuation and shareholder-friendly economics behind the deal, we were not attracted by the chemical franchise. In particular, we thought chemical lacked a differentiated asset strategy and had a weaker deposit franchise than that of TCF. We decided to exit from our position.

SMALL-CAP FUNDAMENTAL VALUE REP. ACCOUNT PORTFOLIO ACTIVITY		
ADDITIONS		SECTOR
DLX	Deluxe Corporation	Industrials
DELETIONS		SECTOR
TCF	TCF Financial Corporation	Financials

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Small-Cap Fundamental Value 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	13.3	12.4	7.8	12.2	14.0	47	0.3	1,806	33,155
2016	23.4	22.4	31.7	13.0	15.5	46	0.3	1,660	30,417
2015	-4.6	-5.3	-7.5	12.3	13.5	45	0.2	1,186	43,746
2014	7.1	6.3	4.2	10.7	12.8	41	0.4	1,002	44,772
2013	42.0	41.0	34.5	14.1	15.8	32	0.3	693	40,739
2012	23.0	21.9	18.1	17.7	19.9	13	0.1	269	26,794
2011	2.9	1.9	-5.5	20.6	26.1	9	0.6	190	19,962
2010	28.3	26.7	24.5	NA	NA	Five or fewer	N/A	61	16,859
2009	25.7	24	20.6	NA	NA	Five or fewer	N/A	30	11,058

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

- *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
- The Small-Cap Fundamental Value Composite includes all discretionary portfolios invested in the Small Cap Fundamental Value Strategy. The strategy invests primarily in U.S. smaller market capitalization equities that generate high levels of free cash flow and are currently undervalued by the market. The minimum account market value required for composite inclusion is \$1.5 million.
- This composite was created in 2009.
- The benchmark is the Russell 2000® Value Index. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The Russell 2000® Value 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.
- 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.
- 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: 1.00% on the first \$25 million; 0.90% on the next \$25 million; 0.80% on the next \$50 million; and 0.70% on the balance over \$100 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the composite may differ from the current fee schedule.
- The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2009 and December 31, 2010 because 36 month returns for the composite were not available (NA).
- 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 is not indicative of future results.
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Composite performance is based on the Brown Advisory Small-Cap Fundamental Value Composite and was obtained through FactSet®. All information and returns shown are as of 3/31/2019 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 Small-Cap Fundamental Value account and is provided as supplemental information. Account characteristics exclude cash and cash equivalents; top 10 holdings list excludes 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 Small-Cap Fundamental Value account and is provided as supplemental information. 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. 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. Top five and bottom five contributors exclude cash and cash equivalents. Sector diversification and attribution 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 statement above for additional information.

Terms and Definitions for Representative Account Calculations

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. **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. **Portfolio Turnover (3 yr. avg)** 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. **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. **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. **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. 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. Numbers may not total due to rounding.