

# SMALL-CAP GROWTH REVIEW AND OUTLOOK

## Summary of Philosophy and Performance

The Brown Advisory Small-Cap Growth strategy rebounded from its COVID-19-induced lows during the second quarter, climbing meaningfully in absolute terms and bringing the year-to-date return into modestly positive territory. These investment results compare favorably to our most widely used benchmark, the Russell 2000® Growth Index, and the Russell 2000® Index as well. Our positive returns were generated by our security selection, with a modest cash position representing the largest drag.

Our long-term mission is to deliver attractive investment performance in the small-cap equity market, while taking on less risk to achieve that end. We aim to do so by focusing our time and attention on finding differentiated business franchises that we calculate have a higher-than-average probability of maturing into multi-year “compounders”. We believe forward progress was made in our journey in the first half of the year and in the second quarter of 2020, in particular. As always, we deeply appreciate your support along the way.

## The Economy and Markets

There has been a great deal written about the divergent paths of the U.S. economy and the U.S. stock market. The former is experiencing an unprecedented negative shock that is historic in nature, and the latter is experiencing a rally in (growth) stocks that is unrelenting. At its outset, the difficulty in assessing the impact of the pandemic on equity prices was that it was an exogenous shock of which both the depth and the duration was unknown. The low point in the market corresponded with this fact. The recovery in prices is linked to a near “goldilocks” combination of monetary and fiscal stimulus (measured in trillions of dollars), a cessation of COVID-19-perceived risk and recent improvements across the board in short-cycle economic data.

The good news is we know that things are getting better for the economy. The bad news is that we do not know how long the continuous improvement will last or how much of prior peak economic output will be reclaimed and when. If GDP can climb back to its recent highs in short order and grow off the base, it will be quite the accomplishment and the trillions of dollars spent to plug the temporary hole will likely be deemed worth it. However, if the economy is only able to reach 90% to 95% of prior output and then stalls, that would be a terrible predicament. We believe that pundits would surely question whether all of that money merely delayed the inevitable instead of avoiding it. Only time will be able to answer this crucial question. The answer will determine if this is simply a sugar high or something more sustainable in nature.

With the U.S. elections on the horizon, we are likely to err on the side of caution.

## Investment Facts and Strategy Impact

Our analytical team has been producing strong stock selection of late, which is fortunate given the investment environment encountered in the second quarter of 2020. We tend to think of our portfolio as higher “quality”. According to one small-cap

strategist, “If your game is quality, then the past quarter was not for you.” Lower quality factors, such as low share price, low return on equity, highly shorted, high leverage and unprofitable stocks led returns across most sectors. As is typical in market rallies, when the recovery gains steam, investors feel more comfortable moving out on the risk curve to source incremental gains. In short, what the pandemic had seemingly destroyed was restored, as headlines of fewer cases and potential vaccines sent many investors to their trading accounts to hit the BUY button.

The leadership dynamics of unprofitable and expensive do not represent tailwinds for the portfolio. In fact, the market rise is somewhat ill-suited to our strategy of seeking to best the Index. We believe that it is truly a testament to the hard work of the colleagues that we work with that have put us in the position we are in today. It is also important to highlight that we are presently underweight both technology and health care, based on our internal sector allocation framework. We are well aware that certain components of the market are gripped by momentum and exceptionally crowded. If the momentum ever turns, there will be a lot of investors running for the exits at the same time and we prefer not to get trampled.

We have this mentality because our goal is not to be the best-performing portfolio over any short time period. It is to build an all-weather portfolio that clients can own through a full market cycle, where upside is driven by bottom-up, individual stock selection and downside protection is achieved based on the asset quality, diversification and valuation discipline embedded in the portfolio.

## Beyond the Highlights

Great attention tends to be paid to the portfolio positions that have the largest positive and negative impact to performance each quarter. Yet, we have found that sometimes it is the investment stories that are outside of the highlights that tend to shed the most light on our process. We hope that the short anecdotes provided in this section help you visualize how we work a bit more clearly.

Over the past 12 to 18 months, we have slowly reduced our technology exposure in favor of health care, which is now the largest sector in the portfolio. The primary driver of this tilt has been what we believe is the likely unsustainable rise in the valuations across much of the IT landscape and, secondarily, the dramatic changes in our most widely used benchmark over the last two years. With the hard work of Mark Kelly, our SMID-cap health care analyst, we have sifted through dozens of ideas across his areas of expertise. We have acted on several select opportunities that fit our preferred “3G” (sustainable growth, sound governance and scalable go-to-market) investment characteristics and are priced as attractive risk/reward opportunities. Phreesia (PHR), a software company providing patient check-in solutions for medical practices, is a good example. Through our network of venture capital and private equity relationships at Brown Advisory, we had known about Phreesia for a few years as a private company, although we had little direct interaction with the management team.

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The company develops, maintains and distributes a software-as-a-service-based platform that offers health care providers with a robust suite of solutions to help manage patient intake and other core functions to securely process patient payments. Evident by its description, Phreesia represented an opportunity to add-back software content that had been removed from the portfolio—although with markedly different drivers than the typical mid-market to enterprise software business. It was here that our interest lied.

In May of 2019, Phreesia began a process of selecting a group of investment banks to arrange “Test-the-Waters” meetings before an official initial public offering roadshow. The purpose of these sessions was to prepare the management team and their “story” for the rigors of the public market and to provide an early look into the business for select, long-term investors. We believe our invitation to these events is a function of our reputation, our multi-year time horizon, and the fact that, while we analyze numerous deals, we are highly selective and committed to the select few we participate in per annum.

After meeting with the Phreesia management team in the spring of last year, we concluded that it was likely that the business and leadership represented a strong fit with our desired portfolio characteristics. In order to validate this gut feel, we reached out to several customers to better understand their experience with the company’s products. We were fortunate to have a contact at a large medical practice that used Phreesia’s software tools. We believe that this provided us with a window into how “sticky” Phreesia’s solutions might be and what type of revenue opportunities might be available to the company through up-sell and cross-sell over time. It was through this conversation, and a few others, that we were able to help validate the management team’s assessment of their total addressable market, which is critical to understanding a company’s runway for growth. We then requested a second meeting with the company in June 2019, to better understand the underlying operations and governance of the business, so we could model how the company might scale over the next few years if our assessment of its top-line growth came to pass.

By the IPO on July 18, 2019, we believed we had a firm handle on the business, discussed the execution of management with a member of the board, validated the solution set with customers and were prepared to make an investment... if the price was right. The IPO was priced at \$18 per share—a price we believed provided enough upside given our positive long-term views to participate in the deal. Hopefully, because of our efforts to explain our investment style, we received a reasonably good allocation in what was a rather hot offering. However, despite this allocation, we remained well below our target position weight in the name. For this reason, we participated in the December 13, 2019 secondary offering because we believed it represented an attractive source of liquidity and, given the market’s dramatic rise during the year, it represented a relatively attractive investment opportunity in our space.

Our final push into the name to reach our target of approximately 1% involved a bit of luck. The stock was trading in the mid-\$30s until the COVID-19 pandemic hit. As elective procedures and nonessential checkups were cancelled in mass, the price of Phreesia’s stock plummeted back down to its IPO price. The market clearly was worried that practice closures would hamper Phreesia’s go-to-market motion, inhibit its future bookings and reduce patient volumes negatively, which would in turn impact payment processing revenue. Upon assessing the situation, we believed these issues were (hopefully) transient and thought it was possible that certain areas of Phreesia’s virtual software functionality might be able to help its clients during this incredibly difficult period. With this view in mind, we rounded up our stake in the business near its pandemic-induced lows. While this execution was solid, we did leave some gains on the table as we kept a little “dry powder” to potentially increase our position further should the virus linger, which we believed would negatively impact our medical system for a longer period of time. This was an outcome that we believed would have driven the stock even lower. This did not occur and Phreesia’s equity value soared along with other small-cap growth stocks from the late March lows.

We believe that this review of Phreesia is emblematic of what we are attempting to do in the portfolio. We strive to conduct rigorous, in-depth due diligence and monetize this work as the market serves up prices that we believe are attractive or skewed in favor of our clients. Today, valuations have climbed back toward their previous lofty levels—or higher still if you believe the pandemic-induced hit to earnings is more than a temporary phenomenon—and we are forced to run even harder in search of ideas that we feel compensate our investors for the risks they are assuming. The good news is that this continues to lead to a growing “on-deck” circle of new ideas, which we believe leaves us prepared to act when the next eventual bout of volatility hits.



Source: Factset® June 30, 2019-June 30, 2020

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# SMALL-CAP GROWTH REVIEW AND OUTLOOK

## Conclusion and Outlook

The first half of 2020 has been nothing less than extraordinary. It started with new all-time highs in equity prices and then witnessed the swiftest market decline by magnitude in recorded history. And now, is once again, on the verge of taking out the old highs reached in February.

During this time, our team has been forced to assess whether any of our companies were at risk of not surviving and, in the same breath, which businesses would thrive on the other side. Whether COVID-19 lingers or vanishes via herd immunity or a vaccine, what were once long-term and slow moving economic and societal changes have been inexorably accelerated. Some of the perceived beneficiaries are now being valued as if they are nearly risk-free investments. More broadly, sectors such as technology and health care have benefited from capital flows that are, dare we say, harkening us back to memories of the late 1990s. We are forced to remember that sometimes great companies do not equal great investments. It is price versus value that matters.

We will continue to do our best to scour the small-cap landscape in pursuit of companies that we believe have promising futures ahead of them where the market has not already priced in all the present and future good news. We have witnessed insane volatility already this year and our goal as a team is to make sure that we are prepared for more should it come our way in the second half of the year.

We believe that investing remains simple—buying solid companies at attractive values—but certainly not easy. We respect and are humbled by the difficulties associated with the long-term game that we play and will strive to continue reporting that we generated solid returns... while taking on less (and, maybe more importantly today, being aware of) risk.

# SECTOR DIVERSIFICATION

The Russell 2000 Growth Index weights are reflective of the Index prior to its reconstitution, thus we believe the data is somewhat stale:

- Basic materials is modestly underweight—we only have one holding in the space.
- Consumer goods is approximately in-line with the benchmark and fairly consistent quarter-over-quarter.
- The strategy is overweight to consumer services, but this exposure continues to trend lower and we believe is eclectic in composition.
- Financials remain a modest underweight relative to the benchmark and is consistent quarter over quarter.
- Health care remains one of our most meaningful underweights due to a philosophical avoidance of early stage, pre-clinical biotechnology.
- Industrials is only a modest overweight relative to the benchmark—we believe that some of the businesses should be classified in other sectors.
- Our exposure to oil & gas comprises one small, technology-enabled business with no debt.
- The strategy is slightly overweight technology, although we believe the largest holding is better defined as a business services franchise.
- Telecommunications is represented by a single holding.

ICB SECTORS	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT (%)	
	Q2'20	Q2'20		Q1'20	Q2'19
Basic Materials	2.02	2.46	-0.44	1.34	--
Consumer Goods	7.69	7.98	-0.29	7.41	4.20
Consumer Services	17.20	9.57	7.62	15.68	18.86
Financials	6.45	8.07	-1.62	5.46	8.32
Health Care	22.02	33.12	-11.09	19.42	18.41
Industrials	21.07	16.74	4.33	27.61	33.34
Oil & Gas	0.40	0.68	-0.28	0.29	0.75
Technology	19.79	17.79	2.00	19.30	16.12
Telecommunications	3.36	0.96	2.40	3.48	--
Utilities	--	2.34	-2.34	--	--
Unassigned	--	0.29	-0.29	--	--

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 Small-Cap Growth account and is provided as supplemental information. Sector diversification excludes cash and cash equivalents. Sectors are based on the ICB Sectors. Please see disclosure statements at the end of this presentation for additional information and for a complete list of terms and definitions.

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# QUARTER-TO-DATE ATTRIBUTION DETAIL BY SECTOR



ICB SECTOR	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT		RUSSELL 2000® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION & INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Basic Materials	1.95	36.30	2.68	27.79	0.05	0.02	0.07
Consumer Goods	7.43	29.91	7.28	41.16	0.05	-0.87	-0.82
Consumer Services	17.89	51.39	8.64	46.16	1.43	0.79	2.22
Financials	6.56	24.82	9.27	17.55	0.49	0.56	1.06
Health Care	21.15	28.95	33.06	31.87	-0.26	-0.47	-0.73
Industrials	21.79	26.06	19.48	26.22	-0.01	0.12	0.11
Oil & Gas	0.37	78.71	0.95	68.21	-0.11	0.06	-0.05
Technology	19.50	43.33	15.81	31.43	0.09	1.75	1.84
Telecommunications	3.35	24.86	0.71	13.61	-0.30	0.25	-0.05
Utilities	--	--	1.88	12.32	0.36	--	0.36
Unassigned	--	--	0.24	55.01	-0.01	--	-0.01
<b>Total</b>	<b>100.00</b>	<b>34.59</b>	<b>100.00</b>	<b>30.59</b>	<b>1.79</b>	<b>2.22</b>	<b>4.00</b>

- Stock selection drove returns during the period.
- Technology was the most meaningful positive contributor.
- Health care was a negative contributor due to the strategy's underweight to biotechnology.
- Adding the total effects of consumer goods and consumer services yields to approximately 100 basis points in positive impact.

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## QUARTER-TO-DATE TOP FIVE CONTRIBUTORS TO RETURN

Representative Small-Cap Growth Account Top Five Contributors

	NAME	DESCRIPTION	AVERAGE WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
ETSY	Etsy, Inc.	Operates an online marketplace for buying and selling of handmade and vintage goods	1.90	174.60	2.29
CHGG	Chegg, Inc.	Operates learning platform for students	2.41	87.75	1.72
CRL	Charles River Laboratories International, Inc.	Provides laboratory testing and research services on a contract basis	3.92	38.16	1.53
CTLT	Catalent Inc	Provides delivery technologies and development solutions	3.28	41.18	1.43
ZNGA	Zynga Inc. Class A	Develops, markets, operates and provides online social game services	3.77	39.26	1.38

- After declining early in the year, Etsy's stock surged during the period due to increased demand across its platform as consumers shifted to online spending. The company has been able to attract new customers and increase purchase frequency across existing customers.
- Chegg reported earnings that supported our investment thesis that the company should benefit from the shift to online learning—it experienced a re-acceleration in subscriber growth, driving strong forward guidance.
- Following a steep sell-off in March, Charles River Laboratories stock experienced a robust rebound as its focus on pre-clinical research activities proved more resilient than its clinical stage peers and market expectations. Specifically, discovery and safety assessment work for biotech companies remained strong, while the company experienced new wins related to the search for a COVID-19 vaccine.
- As a leader in global drug manufacturing with a diverse customer base, Catalent remained largely insulated from the negative demand shocks that continue to emanate from the COVID-19 pandemic. In fact, Catalent is viewed as a critical partner in the development and manufacturing of potential COVID-19 vaccines. The company is currently working on 40 COVID-19-related projects, including the three largest and most advanced programs.
- Zynga continues to experience heightened engagement and monetization in its mobile games due to stay-at-home orders globally. Additionally, Zynga acquired Peak Games for \$1.8 billion—the largest acquisition in the company's history. Zynga has a strong history of leveraging its data science and publishing strengths to drive incremental value at acquired properties, so the market received this news positively.

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## QUARTER-TO-DATE BOTTOM FIVE CONTRIBUTORS TO RETURN

Representative Small-Cap Growth Account Bottom Five Contributors

	NAME	DESCRIPTION	AVERAGE WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
HXL	Hexcel Corporation	Develops, manufactures and markets lightweight composites	0.54	21.77	-0.10
EHC	Encompass Health Corporation	Owens and operates inpatient rehabilitation hospitals	1.15	-3.34	-0.06
KURA	Kura Oncology, Inc.	Provides biopharmaceutical services	0.01	-17.25	-0.05
PGNY	Progyny, Inc.	Provides fertility and family building benefits solutions	0.23	-0.82	0.00
IOVA	Iovance Biotherapeutics Inc	Develops biotechnological products for the treatment of cancer	0.59	-8.29	0.02

- Following weakness related to the decline in air traffic demand due to COVID-19, Hexcel's stock bounced on hopes that the U.S. economy and, eventually, air travel would begin to normalize.
- Encompass Health Corporation's stock lagged during the quarter due to the potential lingering effects of COVID-19 on inpatient rehabilitation admissions and concerns regarding changes in policy priorities following the upcoming U.S. election.
- Kura was eliminated to fund other ideas.
- Progyny provides high-touch, data-driven fertility benefits to self-insured employers. The company's differentiated approach to plan design, member support and active network management has highlighted its ability to drive better clinical outcomes and lower costs. The company has demonstrated meaningful value to clients, which has led to robust growth and high customer retention rates.
- Iovance consolidated its recent gains for most of the period.

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# QUARTER-TO-DATE ADDITIONS/DELETIONS

## Representative Small-Cap Growth Account Portfolio Activity

- Bruker Corp. is a supplier of high-end analytical instruments for life science research. Approximately 70% of revenue comes from niche products, where it is the number one or number two player. We believe that several initiatives and end-market developments have the potential to accelerate organic growth over the next few years.
- Inari Medical has developed differentiated devices for the removal of blood clots from the venous system. These novel products are seeing rapid adoption by interventionalists for the treatment of deep vein thrombosis and pulmonary embolism—markets that we estimate total approximately \$5 billion worldwide and are only approximately 5% penetrated today.
- Nevro has developed a novel device for the treatment of debilitating and chronic back/leg pain. The implantable and programmable spinal cord stimulator has a current addressable market of approximately \$5 billion. However, with future indications such as non-surgical refractory back pain and painful diabetic neuropathy, we believe the company can expand its potential patient base by 11x in coming years.
- Progyny provides high-touch, data-driven fertility benefits to self-insured employers. We believe that the company's differentiated approach to plan design, member support and active network management has shown its ability to drive better clinical outcomes at lower costs. The company has demonstrated meaningful value to clients, which has led to robust growth and high customer retention rates.

SYMBOL	ADDITIONS	GICS SECTOR
BRKR	Bruker Corporation	Health Care
NARI	Inari Medical, Inc.	Health Care
NVRO	Nevro Corp.	Health Care
PGNY	Progyny, Inc.	Health Care

SYMBOL	DELETIONS	GICS SECTOR
KURA	Kura Oncology, Inc.	Health Care
MRVL	Marvell Technology Group Ltd.	Information Technology

- We eliminated Kura to fund other health care ideas.
- We eliminated Marvell to recycle capital into smaller semiconductor ideas.



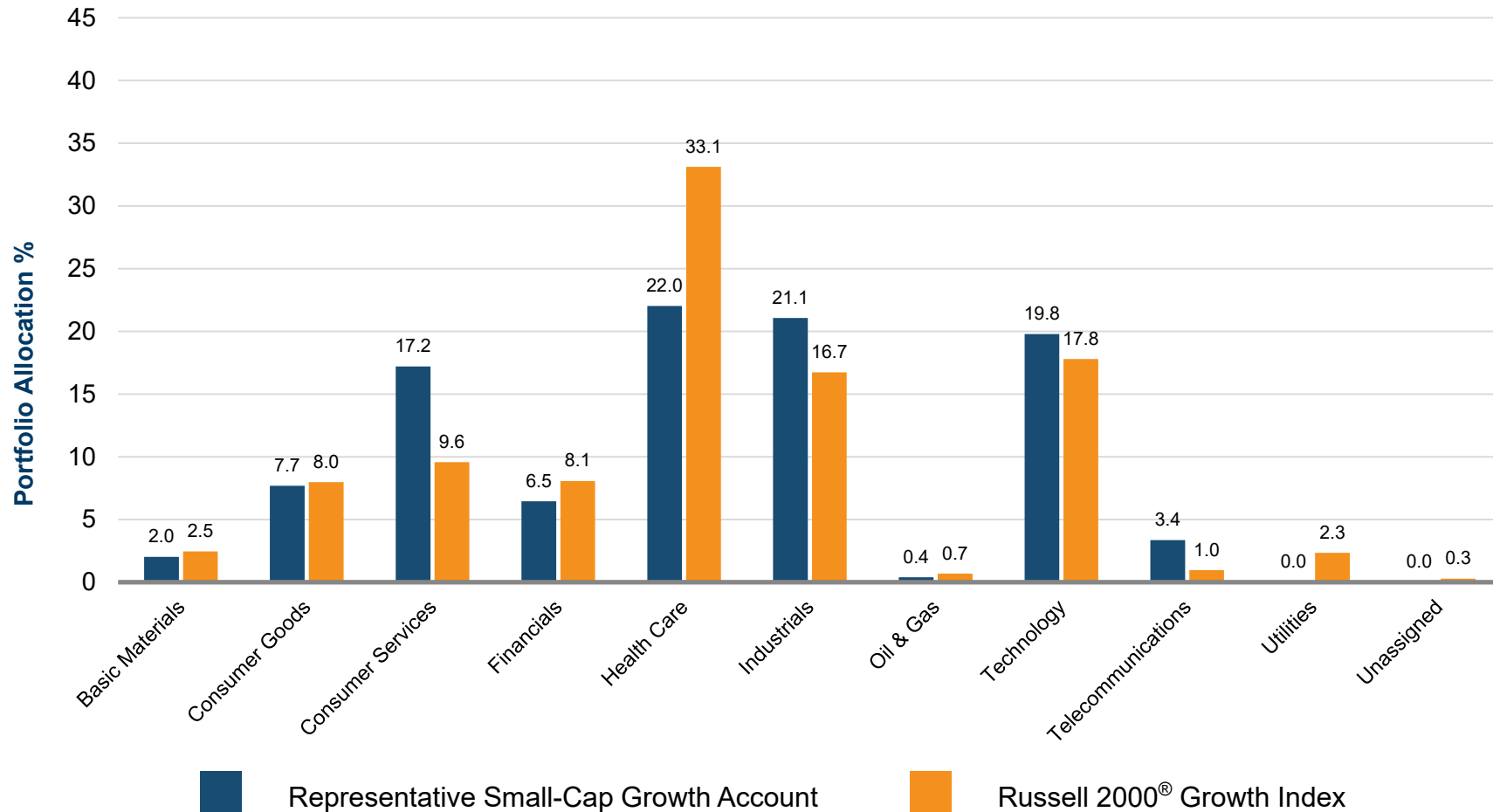
**PORTFOLIO CHARACTERISTICS**

	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT	RUSSELL 2000® GROWTH INDEX
Number of Holdings	71	1,081
Market Capitalization (\$ B)		
Weighted Average	6.3	2.5
Weighted Median	5.2	2.5
Maximum	24.7	5.8
Minimum	0.2	0.0
P/E Ratio FY2 Est. (x)	28.9	21.7
Earnings Growth 3-5 Yr. Consensus Est. (%)	11.5	10.7
ROE (%)	8.9	-2.5
Dividend Yield (%)	0.4	0.6
Top 10 Equity Holdings (%)	32.5	5.3
Three-Year Annualized Portfolio Turnover (%)	37.9	--

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## SECTOR DIVERSIFICATION

ICB Sectors as of 06/30/2020



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**SECTOR DIVERSIFICATION**

GICS SECTORS	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT (%)	RUSSELL 2000® GROWTH INDEX (%)	DIFFERENCE (%)	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT (%)	
	Q2'20	Q2'20	Q2'20	Q1'20	Q2'19
Communication Services	7.34	2.64	4.70	7.18	3.63
Consumer Discretionary	13.21	12.63	0.58	14.62	20.30
Consumer Staples	4.50	3.18	1.32	4.44	3.63
Energy	0.40	0.15	0.25	0.29	0.75
Financials	3.81	4.33	-0.52	3.98	5.90
Health Care	23.68	34.26	-10.59	20.93	19.31
Industrials	17.10	13.08	4.03	19.53	20.45
Information Technology	26.80	21.3	5.50	26.20	26.03
Materials	1.53	2.66	-1.13	1.34	--
Real Estate	1.63	3.84	-2.20	1.47	--
Utilities	--	1.93	-1.93	--	--

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# QUARTER-TO-DATE ATTRIBUTION DETAIL BY SECTOR



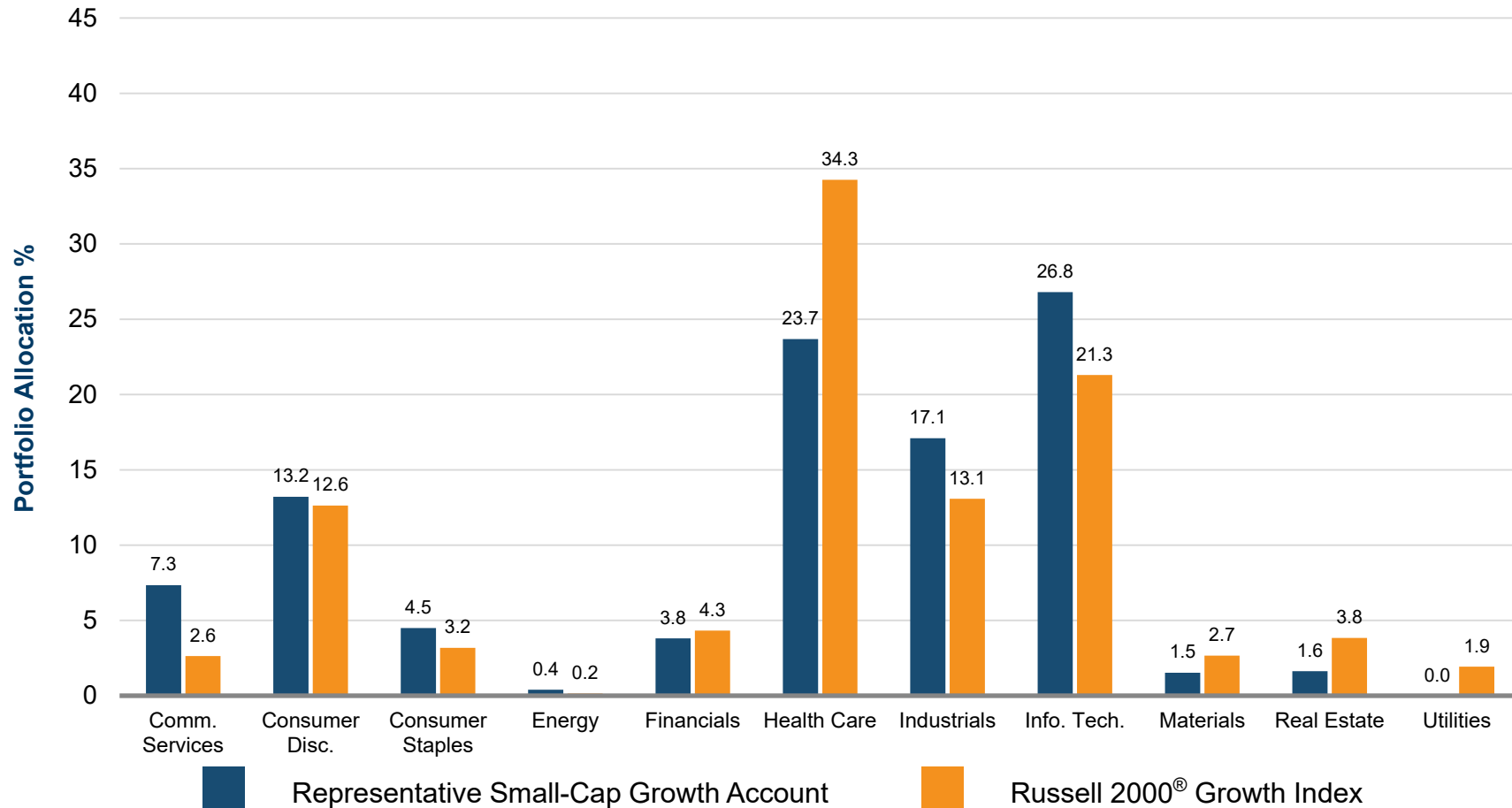
SECTOR	REPRESENTATIVE SMALL-CAP GROWTH ACCOUNT		RUSSELL 2000® GROWTH INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION & INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	7.12	32.27	2.34	23.81	-0.23	0.36	0.13
Consumer Discretionary	13.96	58.70	10.70	54.25	0.83	0.63	1.46
Consumer Staples	4.43	19.18	3.24	21.31	-0.08	-0.07	-0.15
Energy	0.37	78.71	0.28	53.68	0.06	0.10	0.16
Financials	3.95	26.57	5.49	17.92	0.30	0.42	0.72
Health Care	22.87	28.51	34.24	32.30	-0.28	-0.67	-0.95
Industrials	17.93	22.95	17.35	29.64	0.08	-1.08	-0.99
Information Technology	26.39	41.64	18.13	29.69	--	2.43	2.43
Materials	1.42	47.38	2.61	28.32	0.05	0.26	0.31
Real Estate	1.57	14.22	4.00	18.83	0.37	-0.03	0.35
Utilities	--	--	1.62	0.09	0.54	--	0.54
<b>Total</b>	<b>100.00</b>	<b>34.59</b>	<b>100.00</b>	<b>30.58</b>	<b>1.66</b>	<b>2.35</b>	<b>4.01</b>

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## SECTOR DIVERSIFICATION

Global Industry Classification Standard (GICS) as of 06/30/2020

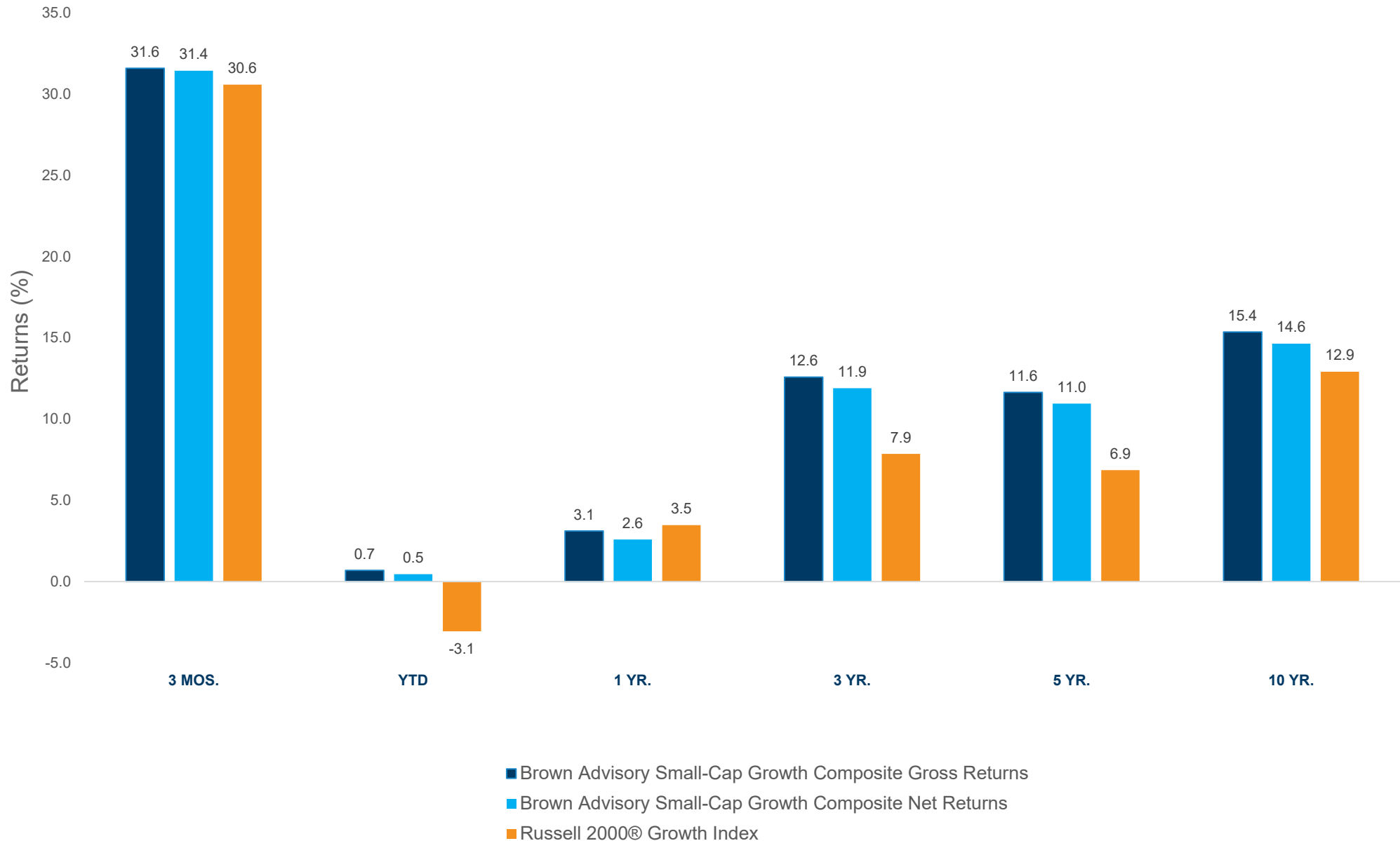


Source: FactSet. The portfolio information provided is based on a representative Small-Cap Growth account and is provided as supplemental information. Sector diversification excludes cash and cash equivalents. Sectors are based on the Global Industry Classification Standard (GICS) classification system.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

Second Quarter 2020

# COMPOSITE PERFORMANCE

As of 06/30/2020



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 Small-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.

Second Quarter 2020

## TOP 10 PORTFOLIO HOLDINGS

Representative Small-Cap Growth Account  
As of 06/30/2020

### Top 10 Portfolio Holdings

TOP 10 HOLDINGS	% OF PORTFOLIO
Cash & Equivalents	4.8
Zynga, Inc.	3.8
Charles River Laboratories International, Inc.	3.7
Genpact Ltd.	3.5
Waste Connections Inc	3.4
GCI Liberty, Inc. Cl A	3.2
Hain Celestial Group, Inc.	3.0
Catalent, Inc.	2.8
SiteOne Landscape Supply, Inc.	2.6
Workiva, Inc.	2.5
<b>Total</b>	<b>33.2%</b>

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. Portfolio information is based on a representative Small-Cap Growth account, includes cash and is provided as supplemental information. Please see disclosure statement at the end of this presentation for additional information. Figures in table may not total due to rounding.



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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. The **Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. Both 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.

An investor cannot invest directly in an index.

Global Industry Classification Standard (GICS®) and “GICS” are service makers/trademarks of MSCI and Standard & Poor’s.

Factset® is a registered trademark of Factset Research Systems, Inc.

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

## TERMS AND DEFINITIONS

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. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period.

**Allocation Effect** measures the impact of the decision to allocate assets differently than those in the benchmark.

**Selection and Interaction Effect** reflects the combination of selection effect and interaction effect. Selection effect measures the effect of choosing securities that may or may not outperform those of the benchmark. Interaction effect measures the effect of allocation and selection decisions (i.e., did we overweight the sectors in which we underperformed).

**Total Effect** reflects the combination of allocation, selection and interaction effects. Totals may not equal due to rounding.

**Contribution To Return** is calculated by multiplying a security's beginning weight in the portfolio by the security's return on a daily basis, and geometrically linking the return to the reporting period.

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

**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.

**Earnings Growth 3-5 Year Est.** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokerage firms, calculated according to each broker's methodology.

**P/E / Growth Ratio**, or **PEG Ratio**, is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate.

**Return on Equity (ROE)** is equal to a company's net income for a full fiscal year, divided by total shareholder equity.

**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.

**Portfolio Turnover** is the ratio of the lesser of the portfolio's aggregate purchases or sales during a given period, divided by the average value of the portfolio during that period, calculated on a monthly basis. Portfolio turnover is provided for a three-year trailing period.

# SMALL-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)*
2019	35.6	34.8	28.5	14.7	16.4	34	0.3	3,456	42,426
2018	-3.3	-4.0	-9.3	13.5	16.5	29	0.3	2,204	30,529
2017	18.8	18.1	22.2	12.2	14.6	33	0.2	2,301	33,155
2016	11.4	10.7	11.3	14.0	16.7	30	0.3	1,797	30,417
2015	8.9	8.2	-1.4	13.1	15.0	32	0.4	1,311	43,746
2014	1.4	0.8	5.6	11.8	13.8	32	0.3	1,597	44,772
2013	42.6	41.8	43.3	15.4	17.3	44	0.7	1,830	40,739
2012	16.0	15.4	14.6	18.3	20.7	32	0.6	1,178	26,794
2011	-1.7	-2.4	-2.9	20.6	24.3	29	0.5	1,023	19,962
2010	30.8	29.8	29.1	27.1	27.7	25	0.1	993	16,859
2009	43.1	41.9	34.5	25.2	24.9	16	1.0	481	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, 2019. 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 Growth Equity Composite (the Composite) includes all discretionary portfolios invested in U.S. equities with strong earnings growth characteristics and small market capitalizations. The minimum account market value required for Composite inclusion is \$1.5 million.
- The Composite was created in 1997. The Composite inception date is March 1, 1993.
- The benchmark is the Russell 2000® Growth Index. 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. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 2000® Growth Index and Russell® are trademarks/service marks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
- The composite dispersion presented is an equal-weighted standard deviation of portfolio returns calculated for the accounts in the Composite for the entire calendar year 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.
- 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.
- 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.