The Advisory

INVESTMENT OUTLOOK FOR PRIVATE CLIENTS

Brown ADVISORY
Thoughtful Investing.

DECEMBER 2015

FRESH TRAILS

With global growth bogged down by sluggishness in developed nations and weakening emerging market economies, financial market volatility will probably persist into 2016. We favor, for a portion of client assets, going off the beaten trail of traditional stocks and bonds into fresh opportunities such as high-yield bonds and hedged equity strategies.

Investing From The Ground Up

Many entrepreneurs seek the satisfaction and profit potential that come from owning a business outright. Direct private investments open an avenue toward these goals, with returns that generally move independently of stocks and bonds.

PRIVATE EQUITY

A short-line railway in suburban Pennsylvania or a maker of gloves and hats near Pittsburgh may lack the cache of a high-momentum info-tech company in Silicon Valley seemingly about to change the world. But direct private investments in such companies can often provide opportunities for solid investment returns while largely bypassing the ups and downs of the public markets.

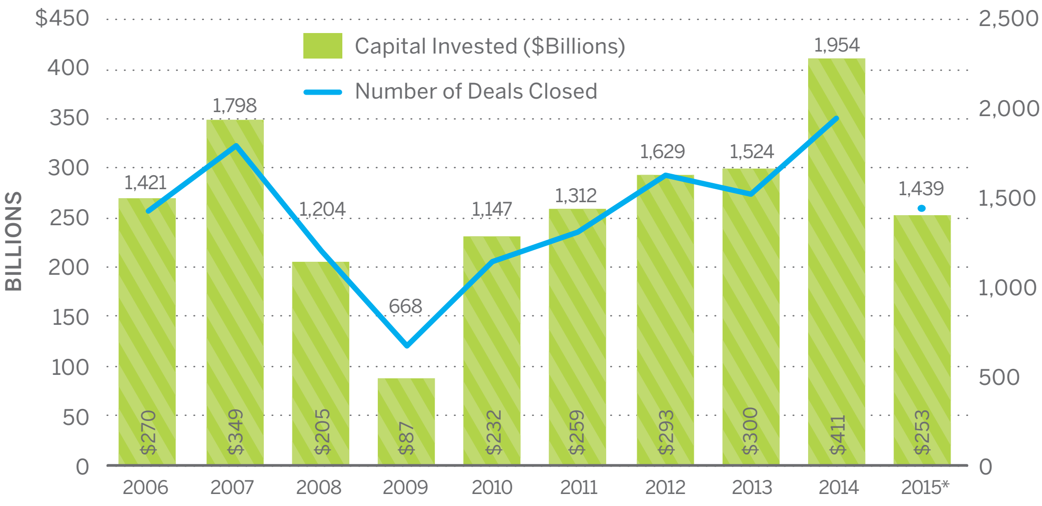
The flood of investor capital into private equity during the past several years has made attractively priced businesses harder to find. But with so many investors focusing on rocketing start-ups (think: Uber, Slack, Airbnb and Snapchat), promising opportunities remain relatively unpursued in smaller, workaday businesses not usually associated with solid growth and high profit.

Direct private investments are not for every client, but they can often appeal to investors who have built their own businesses or who can stomach the risk of a single-company investment that ties up capital for several years. Our belief is that when preceded by rigorous due diligence, direct private investments can generate ample profits with low correlation to stocks and bonds.

BULLISH ON BUYOUTS

Competition in the broader private equity marketplace is intense. Companies and private equity firms have access to inexpensive debt, and valuations since the 2008-2009 financial crisis have hit record levels. From 2009 until 2014, total capital annually invested in so-called middle market private equity deals surged 372% to $411 billion from $87 billion. Such transactions range in size from

PRIVATE EQUITY TRANSACTIONS FROM $25 MILLION TO $1 BILLION
(1/1/2006 – 9/30/2015)



SOURCE: PITCHBOOK

*AS OF 9/30/2015

Big Deal

Competition in the private equity marketplace has surged since the 2008-2009 financial crisis. Thanks to inexpensive debt, private equity deals in the so-called middle market range soared last year to a record level.

Direct private investments may be available for Qualified Purchasers or Accredited Investors only.

BY BRIAN DETTMANN
Co-Head of Private Equity

BY RYLAND SUMNER
Co-Head of Private Equity

$25 million to $1 billion. The annual number of such deals rose during the period to 1,954 from 668. (Please see chart on page 2.)

When sizing up opportunities in direct private investments, we leverage various resources and qualities that we believe distinguish us from traditional private equity firms. Since many of our clients are current or former senior executives among a wide range of industries, they are a helpful, close-to-home network with meaningful business expertise. We are able to partner with any one of our more than 50 relationships with private equity funds, depending on the situation. We also collaborate with Brown Advisory's other investment groups, including our public equity research team.

Because we don't invest using a traditional private equity fund, we have an especially patient, long-term orientation. We also have the flexibility to invest across the lower half of the capital structure, from debt to equity, depending on a company's needs and where we see risk-adjusted return opportunities.

Every year we look at about 250 companies and complete transactions with two or three of them. Although there may be exceptions, we generally target investments in the range of $5 million to $15 million and aim to partner with a company's management team and other shareholders to help them build a stronger and more profitable business over the long term.

HANDS-ON INVESTING

Our transaction with Jacob Ash Holdings, a maker of hats and gloves in McKees Rocks, Pennsylvania, illustrates how we take a decidedly hands-on approach to investing. We had our first interaction with management in May 2014 after learning from a longstanding contact at an Ohio bank that the company was seeking capital to buy Emanuel Geraldo Accessories, based in Montreal.

Started in 1930, Jacob Ash designs and manufactures cold weather apparel accessories. The company has a sizable share of the private label market, as retailers like Wal-Mart and J.C. Penney sell Jacob Ash's goods under their own brands. Jacob Ash also has a few of its own brands, most notably HOT SHOT® gloves in the hunting category. It relies primarily on suppliers in China, where its business dealings date back to 1972.

We found Jacob Ash attractive because of the predictability of demand for winter accessories, the company's leading position in a comparatively small, sleepy market, and profit margins larger than a typical apparel company. We saw the purchase of Emanuel Geraldo as expanding Jacob Ash's product line, augmenting its design expertise and improving its Chinese sourcing operations. Emanuel Geraldo has manufactured apparel in China for more than two decades and operates out of a branch office in Hangzhou with 15 employees.

After several weeks of negotiations with Jacob Ash in May and June 2014, we agreed on a deal giving us a modest, non-controlling equity stake and what we thought was good downside protection. Within days, however, Jacob Ash and Emanuel Geraldo decided not to go forward. The deal seemed dead.

In early November, 2014, we received a call from Jacob Ash saying the acquisition was back on, with the aim of completion before the New Year. Because we already knew the company, we were able to reconstruct the deal in 57 days, closing it on Dec. 30, 2014.

Our investment comprises both subordinated debt and preferred stock. In percentage terms, the debt pays annual interest in the low teens, thereby providing downside protection. We anticipate that the investment—including annual interest, our equity ownership and growth in the business—will generate a total annual return on a percentage basis ranging from the high teens to the low 20s.

We take a granular approach to direct private investments, rolling up our sleeves and evaluating each individual company from the ground up. By doing so, we help clients to share the satisfaction—and returns—commonly associated with owning a business.

Direct private investments may be available for Qualified Purchasers or Accredited Investors only.

INVESTMENT OUTLOOK

OFF THE BEATEN TRAIL

Investors should expect the market swings of 2015 to carry over into the new year, driven largely by concerns over weak global growth. We are recommending that clients consider high-yield bonds and other asset classes that can offer the prospect of solid gains that diverge from the path of traditional stocks and bonds.

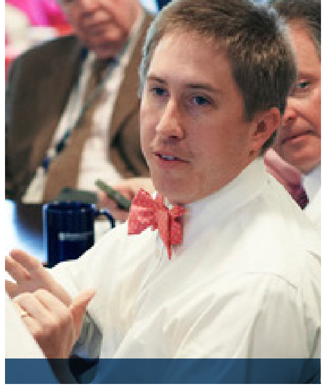
Turbulence in various stock markets will probably persist in 2016 as global growth slows because of weakness in emerging economies including China, a leading engine for the world economy during the past decade.

Investor concerns about slowing growth have sprung up here and there since 2011 but had yet to set back equities until this year. From 2012 until 2014, the MSCI All Country World Index annually rose by an average of 14.1%. In 2015, though, three trends began to weigh on stock prices: equity valuations rose above their historical average, record central-bank stimulus failed to fuel faster growth, and corporations, having already wrung out significant inefficiencies, made fewer gains in streamlining and improving profit margins, especially in the U.S. Heading into 2016, these trends show no sign of fading.

Adjusting to these headwinds, we favor trimming weightings in stocks, bonds and cash. Mindful that inflation erodes the value of cash and interest rates stuck near zero hold down bond returns, we are focusing on strategies with lower correlations to these traditional asset classes. One of our alternatives is high-yield bonds, which offer attractive returns compared with stocks and other fixed income securities. We also continue to see opportunities in hedged equity strategies, real estate and emerging market small-cap stocks.

We believe this group of alternative assets to be less vulnerable than stocks to the risk of flagging economic growth, and less vulnerable than bonds to rising interest rates. The world economy is on pace to grow 3.1% this year, 0.3 percentage point less than in 2014, according to an estimate in October by the International Monetary Fund. As recently as July, the IMF estimated 3.3% global growth for 2015. "With declining commodity prices, depreciating emerging market currencies and increasing financial market volatility, downside risks to the outlook have risen," the IMF said in October.

China, the world's No. 2 economy, grew 7.3% in 2014. The IMF is predicting a figure of 6.8% this year and 6.3% in 2016. These paces are far below China's annual average growth of nearly 10% from 1979 until 2014. "Previous excesses in real estate, credit and



BY TAYLOR GRAFF, CFA
Asset Allocation Analyst

investment continue to unwind, with a further moderation in the growth rates of investment, especially in residential real estate," the IMF said in its *World Economic Outlook*. Chinese President Xi Jinping announced on Nov. 3 that Beijing would accept an annual growth rate of 6.5% from 2016 until 2020, a step down from the annual target of about 7% from 2011 until the end of this year.

FROM SIZZLE TO FIZZLE

Robust expansions in China and other emerging economies such as Brazil and Russia helped buoy the world economy following the financial crisis last decade, a period when the U.S., Europe and Japan floundered. This year, though, growth among emerging market economies is expected to fall to 4% from 4.6% in 2014, according to the IMF. Brazil's economy is likely to shrink this year by 3%, while Russia is expected to decline by 3.8%.

Along with weakening global growth, the Federal Reserve poses a near-term risk to stock and bond prices. Fed officials, noting improvement in the U.S. labor market, have hinted that they will raise the benchmark interest rate from a record low during their Dec. 15-16 monetary policy meeting. It would be the Fed's first increase since 2006.

No matter the investment environment, we size up an asset class by focusing on a comparison of potential gains with downside risk. Since 2009, we have identified eight opportunities to shift portfolio allocations to capitalize on a determined upside/downside mismatch. Six of these moves have benefited client portfolios.

For example, in 2009 we advocated reallocating a portion of funds from a broad market orientation in stocks and bonds into commodities, which we forecast would benefit from monetary easing and rising demand in emerging markets. From Oct. 31, 2009, until Nov. 14, 2011, the UBS/Bloomberg CMCI rose 9.7% on an annualized basis compared with an 8.8% annualized return by a 50/50 blend of the Russell 3000® Index and Barclays Aggregate Bond Index.

In 2011, with the economies of Japan and the eurozone slumping, we called for a shift from international equities into U.S. stocks. From April 7, 2011, until Sept. 30, 2015, the Russell 3000® Index of U.S. stocks surged on an annualized basis by 10.5% compared with a 2% annualized gain by the MSCI EAFE Index of international developed market stocks.

RISING YIELDS IN HIGH-YIELD BONDS
(10/31/2012 – 10/31/2015)

SOURCE: BLOOMBERG, BASED ON BANK OF AMERICA MERRILL LYNCH U.S. HIGH YIELD CASH PAY INDEX AND THE YIELD ON THE 10-YEAR TREASURY BOND. THE EARNINGS YIELD IS EARNINGS PER SHARE DIVIDED BY THE MARKET PRICE PER SHARE.

Comparative Advantage

The typical yield on high-yield bonds rose to nearly 7.5% as of Oct. 31, 2015, from 5% in June 2014. This is meaningfully higher than the earnings yield for stocks in the Standard & Poor's 500 Index and the yield on the 10-year U.S. Treasury bond.

Outperforming Equities

During stock market corrections, high-yield bonds tend to decline less than equities. From May 21, 2015, until Aug. 25, 2015, the S&P 500 Index fell 11.9% compared with a 4.3% decline by high-yield bonds.

STANDARD & POOR'S 500 INDEX CORRECTIONS SINCE 1992
(CUMULATIVE RETURNS)

START	END	S&P 500 CORRECTION	HIGH-YIELD TOTAL RETURN
7/17/98	8/31/98	-19.3%	-4.2%
3/24/00	10/9/02	-49.1%	-6.9%
11/27/02	3/11/03	-14.7%	6.8%
10/9/07	3/9/09	-56.8%	-29.1%
4/23/10	7/2/10	-16.0%	-2.0%
4/29/11	10/3/11	-19.4%	-7.3%
5/21/15	8/25/15	-11.9%	-4.3%

SOURCE: BLOOMBERG, BASED ON BANK OF AMERICA MERRILL LYNCH U.S. HIGH YIELD CASH PAY INDEX. A CORRECTION IS DEFINED AS A STOCK MARKET DECLINE OF 10% OR MORE.

Today, we believe that high-yield bonds provide a compelling option for investors in a low tax bracket or with the ability to invest through a tax-advantaged structure like an IRA. The typical yield on such bonds recently surged to nearly 7.5% as of Oct. 31 from 5% in June 2014. Meanwhile, as shown in the chart on page 5, the earnings yield fell for stocks in the Standard & Poor's 500 Index and the yield on U.S. Treasuries meandered within a narrow range below 2%.

GOLDILOCKS FOR HIGH-YIELD

Our outlook for the economy in 2016 suggests that corporate bonds may outperform equities. In our view, growth may be too weak to drive up corporate earnings and stock prices significantly. At the same time, the mix of moderate growth with low inflation that we foresee is generally positive for corporate credit. Slow but stable growth means that most companies can repay debt, keeping the risk of default low. Also, low inflation argues against a sudden rise in interest rates that would undercut bond prices.

High-yield bonds are also attractive because of their low correlation to other types of bonds. In fact, high-yield bonds outperformed Treasuries during seven corrections in the Treasury market since 1992. When, for example, the yield on Treasuries rose 1.64 percentage points from July 24, 2012, until Jan. 1, 2014, Treasuries fell by 4.3% while high-yield bonds surged 14.5%. (Please see the table on the next page.)

High-yield bonds have also typically outperformed equities when stock markets fall. For example, from May 21 until Aug. 25 of this year, the S&P 500 Index plunged 11.9% while the typical high-yield bond declined 4.3%. In short, high-yield bonds will probably provide a favorable counter-current to stocks and bonds. (Please see the story on page 8.)

To be sure, high-yield bonds are "tax inefficient" and not for every investor. Specifically, all of the cash flow from yield is considered and taxed as ordinary income, and could cut in half the return for investors in the highest tax brackets, depending on their state of residency. Therefore, investors should most strongly consider buying high-yield bonds in an IRA or other tax-advantaged account.

Hedged equity strategies, real estate, and emerging market small-cap stocks—the other opportunities we see in

reallocation—also offer lower correlations to traditional stocks. By utilizing certain and creative hedges, managers can isolate the strengths or weaknesses of a company from its correlation to the broad stock market. They can take a long position in a stock when they expect it to rise or a short position should they expect the stock to fall. Such a flexible approach is especially appealing when the stock market is flat or falling.*

OUTSIDE THE "GATEWAY"

The location-specific nature of real estate provides an advantage in diversification. While both stock and bond markets tend to react to changes in the global or national economy, the performance of real estate largely hinges on management skill and the health of a local economy. We are particularly attracted to income-producing properties outside the "gateway" markets of New York, San Francisco and Miami.

Our shift within equities targets small-cap stocks that are leveraging the growth of Asia's middle class. We prefer avoiding the rich valuations of consumer staple stocks, investing instead in consumer discretionary stocks and companies with indirect exposure to the consumer. These include life insurance and family-oriented health care firms. Accordingly, we are focused on increasing our exposure to managers whose strategies echo these investment themes.

Investors should keep in mind that it is very unlikely that traditional equities and bonds will gain at the same pace during the next few years as during the period since 2009. Moreover, cash does not offer a promising return. The Fed and other central banks have purchased record amounts of bonds with the aim of driving down interest rates and spurring growth. The policy of so-called quantitative easing has pushed investors into riskier, higher-yielding assets and out of cash, which is eroded by inflation.

By looking beyond a standard roster of stocks, bonds and cash, to alternatives like high-yield bonds, hedged equity strategies, real estate and emerging market small-cap stocks, investors can find opportunities for solid, risk-adjusted returns in a decelerating global economy.* B

CORRECTIONS IN U.S. TREASURIES SINCE 1992
(CUMULATIVE RETURNS)

START	END	INCREASE IN YIELD (%)	TREASURIES RETURN	HIGH-YIELD RETURN
10/15/93	11/7/94	2.87	-6.3%	0.2%
01/18/96	6/12/96	1.54	-4.1%	0.5%
10/5/98	1/20/00	2.63	-4.4%	4.0%
6/13/03	6/14/04	1.66	-5.0%	9.0%
6/01/05	6/28/06	1.36	-2.0%	5.4%
12/30/08	4/5/10	1.93	-4.1%	65.5%
7/24/12	1/1/14	1.64	-4.3%	14.5%

SOURCE: BLOOMBERG, BASED ON BANK OF AMERICA MERRILL LYNCH U.S. TREASURY INDEX, BANK OF AMERICA MERRILL LYNCH U.S. HIGH YIELD CASH PAY INDEX AND THE YIELD ON THE 10-YEAR TREASURY BOND.

Beating Other Bonds

High-yield bonds significantly outperformed U.S. Treasuries during seven corrections in the Treasury market since 1992.

*Investments may be available for Qualified Purchasers or Accredited Investors only.

Diamonds In The Rough

Weak commodity prices and flagging emerging market economies have dimmed the outlook for energy and metals companies, and are shaking up the high-yield bond market. Through conservative, bottom-up analysis, we are taking advantage of current market dynamics to buy attractively priced debt in companies with solid revenues and limited vulnerability to an economic downturn.

BY TOM GRAFF, CFA
Head of Fixed Income

More than at any other time this decade, finding attractive high-yield bonds is like unearthing diamonds in a minefield. Debt in well-managed companies positioned to weather an economic slump return nearly three times the 2.3% yield of the 10-year Treasury bond. But at the same time, with 5% of high-yield bonds selling at distressed levels, we see a market indication that corporate bankruptcies may rise in 2016.

The market for high-yield bonds has become increasingly polarized as falling energy prices and slowing emerging market economies have broadly crimped company revenues. Within the $450 billion high-yield market, less than 60% of high-yield bonds sell for more than face value compared with more than 90% in June 2014.

Further, among the $195 billion in debt with yields at least 10 percentage points above the yield of the 10-year Treasury, only $3 billion was sold this year. The low volume indicates a reluctance among investors to roll over debt for stressed companies.

CRITICAL EYE

Market weakness presents an opportunity to find attractive securities through bottom-up research and a detailed assessment of downside risk. In our search for diamonds, we are taking a conservative approach and vetting each high-yield bond based on a hypothetical scenario of a U.S. recession, even though we do not believe the U.S. expansion will end in 2016.

We are especially leery about securities issued by companies in the commodity sector, including oil, gas, metals and mining. Many of these firms borrowed heavily to fund acquisitions or capital projects based on overly optimistic forecasts for growth. Yields as high as 20% do not, in our view, compensate for their credit risk and the prospect that commodity prices will remain depressed.

Instead, we are buying debt sold by companies with comparatively low vulnerability to the economic cycle and business models that provide steady revenue streams. Here are some of our recent purchases, yielding between 4% and 6%:

Synovus Financial, a commercial and retail bank operating primarily in the Southeastern U.S., built up substantial reserve capital while recovering from the Great Recession in 2008-2009. We consider Synovus, based in Columbus, Georgia, an attractive target for acquisition or an upgrade to an investment-grade rating.

> "HISTORY OFFERS MANY EXAMPLES OF INVESTORS BURNED BY HIGH-YIELD BONDS SOLD BY OVERLEVERAGED COMPANIES."

Isle of Capri Casinos operates casinos in the U.S., primarily in the South and Midwest. The company has no operations in Las Vegas, Atlantic City and other tourist hubs, relying instead on more stable visits by "day-trippers." The company, after reducing its debt, gained a ratings upgrade from Moody's in September to B1 from B2.

Carroll's Restaurant Group, the largest Burger King franchisee in the U.S., has increased both gross sales and profit margins on improvements in the fast-food restaurant's menu and marketing. Carroll's is viewed as a valuable partner for Burger King and is often asked to turn around floundering franchises.

History offers many examples of investors beguiled and then burned by high-yield bonds sold by overleveraged companies, from telecommunications firms in 2000 to homebuilders in 2007 to coal mining companies in 2014. By following a disciplined and patient approach, we hope to avoid these "value traps" and instead invest in bonds with robust yields and limited risk of default.

Anchoring Expectations

Stock market corrections can prompt investors to impulse selling or other moves that are often harmful to their long-term financial well-being. By walking through four steps with a client, we can refocus his or her mindset on the fundamental issues that help safeguard financial stability and achieve steady outperformance.

BY MARK KODENSKI
Private Client Portfolio Manager

During periods of market volatility, investors overly focused on short-term gyrations in stock prices may fall prey to emotional swings that can ultimately prove more detrimental to their financial well-being than a bear market.

In advising clients over the years, we have seen the value of helping families buy into the long-term orientation essential to successful investing and portfolio management through all market conditions. Such a perspective is more than just a state of mind: it's the benefit of taking deliberate, practical steps toward the sound decision making and management necessary to achieve clarity and instill confidence in any long-term plan. Here are four ways we think about preparing clients to stay the course regardless of the market's mood:

Clarify your mission. We work with clients to create—either in writing or verbally—a "mission statement" detailing how they want their assets to serve their well-being in coming decades. This includes articulating a policy with regard to investment risk tolerance, long-term goals, cash flow needs and sector diversification. It also encompasses intended lifestyle, charitable giving, retirement and estate planning, and liabilities, including anticipated costs for health care. During times of market volatility, such long-term planning enables clients to shake off an impulse to sell.

Set hard numbers. Determine both your annual level of spending and a five- and 10-year goal for portfolio returns. This helps to meet your immediate needs and instill discipline in a long-term context, averting excessive spending when valuations are rising.

There are three fundamental variables to monitor in portfolio management: market performance, changes in tax policy and a portfolio's rate of drawdown (expenses and spending). We cannot control the first two forces. But by helping a client determine the optimal rate for drawing from a portfolio, we can help preserve capital and ensure a successful long-term outcome.

Use the "Three Bucket" approach to ensure balance in a portfolio. We regularly review portfolio allocations to confirm that clients have sufficient "operating" funds to meet near-term cash needs. This allows a client to ride out a market correction without having to sell equities or any security at a disadvantageous time.

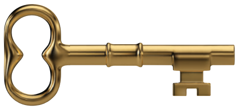
The operating allocation for annual living expenses is typically invested in money market instruments and short-duration, fixed income vehicles. It is just one of "three buckets" that help clients differentiate among the purposes of their investments, manage risk and achieve solid, long-term returns.

The "core" allocation is made up of a mix of assets aimed at stability and growth. It is not meant to be changed dramatically over time and is tailored to a client's specific needs, including retirement, education and philanthropy.

With well-structured core and operating allocations, a client can comfortably go on the offensive with the third, "opportunistic" bucket. This focuses on tactical, timely investments and will vary depending on an investment's risk level, liquidity and return potential. This allocation should yield a risk-adjusted return exceeding that of the core bucket.

Create a portfolio structure buffered against taxes. There are few pieces of news more exasperating for investors than a significant tax bill following a period of meager returns. Therefore, it is essential that we structure client portfolios to be tax efficient. After the 2008-2009 financial crisis, many clients could use loss carry-forwards to reduce taxes against gains taken in subsequent years. With those benefits used up, we are always looking for new and sometimes creative ways to manage tax liabilities.

By understanding and meeting the four criteria above, a client can set a windward anchor of realistic expectations. A family will then approach its portfolio—and any foul weather in financial markets—with confidence, increasing the likelihood of achieving its long-term goals.



Ensuring Legacies Last

Heirs who are unprepared for an inheritance may find that a big windfall can quickly become a mixed blessing. An essential step in estate planning is making sure beneficiaries know all the responsibilities and challenges that accompany the management of increasing wealth.

When an aging parent with an air-tight estate plan fails to prepare heirs for an inheritance, an act of kindness runs a high risk of backfire. Even assets in the most buttoned-up plan for wealth transfer can be frittered away or become a source of strife without proper balance, transparency, objectivity, education and monitoring.

Some 55% of Americans die without having prepared a will or estate plan, according to the American Bar Association's website. For those who have assets to pass on, this all but guarantees a bumpy path for heirs in obtaining their inheritance. But even the most forward-thinking and comprehensive estate plan may yield the same results by not ensuring that heirs are ready to handle sudden wealth.

Unprepared heirs may squander the assets out of incompetence or self-indulgence, and an heir who is unready for the responsibilities of new or increased wealth may feel unsure of next steps and whom to trust. Sometimes these generational transfers lead to litigation among heirs with conflicting expectations. Much is at stake: baby boomers in North America will transfer to their descendants about $30 trillion in inheritance during the next three to four decades, according to Accenture. Here are ways we think about minimizing the risk that an inheritance goes awry:

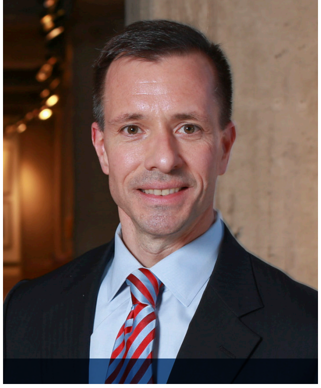
Make sure your estate plan has the right balance of security and autonomy. Estate plans can offer heirs a full range of control, from an outright inheritance without limitations, to trusts that distribute assets over decades. Trusts often make sense, as they provide economic benefit to heirs while protecting assets from certain creditor claims and taxes. The provisions of a trust—and its oversight by a trustee—may reduce risks of heirs feeling overwhelmed by the responsibilities accompanying newly acquired wealth. Within estate plans, grantors can enshrine their ideals as guidance for later generations, unifying their thoughts and actions, including philanthropic work, and establishing a sense of the grantor's legacy.

Consider telling heirs the extent of an inheritance. Some benefactors prefer not to disclose the magnitude of an inheritance, fearing that heirs will otherwise lack the incentive to lead a productive life. While veiling the size of an estate may be warranted in some cases, many heirs indicate that with prior knowledge they might have pursued more vocationally centered careers aligned with their interests and talents.

> "THOUGHTFUL PREPARATION ENSURES THAT HEIRS WILL HANDLE THEIR WEALTH NOT JUST RESPONSIBLY, BUT WITH VISION AND CONFIDENCE."

Heirs struck by sudden riches often confront a maelstrom of conflicting feelings and thoughts. One is an awareness of maxims such as "great wealth brings great responsibility" and "to those to whom much is given, much is asked." Preparation for an inheritance creates a sense of impending stewardship over assets intended for their and their family's long-term well-being. Such preparation may take many forms—such as regular family meetings to discuss financial matters and involvement of descendants in management of the family's charitable endeavors. But the key to success is clear, consistent communication.

For example, a family may have given scant thought to wealth planning, being led to believe little would be passed to them. When a windfall strikes, they may be stunned, and quickly realize the



BY JOE FERLISE
Strategic Advisor

urgency of beginning long-term planning. They may not grasp the full implications of being heirs of significant wealth. "Am I an heir, what does that mean?" may be a common question. An effective advisor, however, when working with the grantor, can guide the beneficiaries, allowing them to proactively embark on their own planning in advance of the distribution.

Share news of the inheritance with help from an advisor. Heirs can feel a complicated mix of emotions when considering the benefits and responsibilities accompanying an inheritance. An advisor can introduce heirs to objective notions of estate planning, answering their questions without the overtone of emotion that sometimes accompanies meetings guided by a family member. The early establishment of trust between heirs and an advisor increases the likelihood of a smooth transfer of wealth, providing reassurances to a benefactor.

Another example involves a grantor who has accumulated significant assets after decades of modest and industrious living, and who decides not to share the extent of wealth with the family. Should substantial gifts be contemplated, the grantor may have the advisor notify the children. The advisor would prepare the family for the coming assets and, when gifts are significant, would work with heirs to craft their own plans.

Make sure your heirs are able to meet their future responsibilities. Some heirs have little familiarity with finance, markets and asset management. Thoughtful advice on these topics is essential as heirs begin to ponder their long-term investment needs. Our efforts prove especially helpful in ensuring that our clients ride out periods of market volatility and remain confident in a strategy of diversified, long-term investing.

When effective, the advisor ensures that heirs know the extent of their decision-making authority and ability to vet investment opportunities and measure portfolio performance. They should feel confident to raise questions and seek counsel from other qualified professionals. Trusts may also assist with this education and training. In some cases, grantors will use trusts to provide an "apprenticeship" for heirs by having them serve as co-trustee alongside a professional trustee.

Monitor the progress of an estate plan with periodic checkups. We have found that one of the biggest challenges to executing an estate plan is helping heirs adjust to tax and regulatory changes. We also find it helpful to regularly check in on the investment portfolio to ensure that performance, asset allocation and specific assets align with a family's goals.

An inheritance is best used to sustain financial security, support the personal growth of heirs and bring broad benefits to communities. Thoughtful preparation ensures that heirs will handle their wealth not just responsibly, but with vision and confidence.

Brown ADVISORY
Thoughtful Investing.

OFFICE LOCATIONS

BALTIMORE
(410) 537-5400
(800) 645-3923

WASHINGTON
(240) 200-3300
(866) 838-6400

LONDON
+44 203-301-8130

NEW YORK
(212) 871-8550
(646) 274-7470

BOSTON
(617) 717-6370
(617) 326-0600

CHAPEL HILL, NC
(919) 913-3800

WILMINGTON, DE
(302) 351-7600

brownadvisory.com
brownadvisory@brownadvisory.com

The views expressed are those of the authors 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 a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance. In addition, these views may not be relied upon as investment advice. The information provided in this material should not be considered a recommendation to buy or sell 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 or other 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 and is for informational purposes only. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication.

MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

UBS Bloomberg CMCI Composite USD Total Return is a diversified commodity index family made up of 27 components. CMCI offers the ability to gain exposure to the broad commodity markets, specific sectors including energy, industrial metals, precious metals, agriculture and livestock as well as individual components. It also includes a time dimension by allowing investment across different tenors.

The Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

Barclays Aggregate Bond Index is an unmanaged, market-value weighted index comprised of taxable U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate, asset-backed, and mortgage-backed securities between one and 10 years.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. (Source: MSCI).

The Bank of America Merrill Lynch High Yield Cash Pay Index is an unmanaged index used as a general measure of market performance consisting of fixed-rate, coupon-bearing bonds with an outstanding par which is greater than or equal to $50 million, a maturity range greater than or equal to one year and must be less than BBB/Baa3 rated but not in default.

The Bank of America Merrill Lynch U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $1 billion. Qualifying securities must have at least 18 months to final maturity at the time of issuance.

The S&P 500 Index represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include: market capitalization, financial viability, liquidity, public float, sector representation, and corporate structure. An index constituent must also be considered a U.S. company.

Circular 230 Compliance Statement: Regulations contained in IRS Circular 230 regulate written communications from us concerning tax matters. In compliance with those regulations, we must inform you that 1. Nothing contained in this document is intended to be used, and nothing may be used or relied upon by any taxpayer for the purpose of avoiding penalties that may be imposed on such taxpayer under the Internal Revenue Code of 1986, as amended; 2. No written statement in this document may be used by any person or persons to support the promotion, marketing or recommendation of any federal tax transaction(s) or matter(s) contained herein; and 3. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor with respect to any federal tax transaction or matter contained in this document.