



Portfolio Review and Outlook

While markets sputtered as concerns about a “double-dip” recession were heightened by both economic issues in Europe and sluggish job recovery in the U.S., the portfolio performed relatively well, declining significantly less than its benchmark.

While we don’t spend a great deal of time on broad equity market strategy (preferring instead to focus on company-specific fundamentals), we offer a few thoughts that are probably at odds with a majority of the broad market commentary like CNBC and the *New York Times*, or the popular press at large:

1. Jobs recovery always lags; the market today feels a lot like ’02-’03 when we were bemoaning the potential for a “jobs-less recovery.” We shall see, but let’s not despair quite yet.
2. The markets are not expensive, even if 2011 estimates ultimately come down.

3. Some note that the “European situation is a disaster which has the capacity to bring us all down.” The equity growth portfolio only has roughly 15% exposure to Europe, so a really weak European economy would not spell the end of the world for our portfolio. Also, it is unclear right now how bad the situation really is. In the latest *Businessweek*, Ajay Banga, the CEO of MasterCard states that “It’s almost like a tale of two Europes, we read about the debt crisis and sovereign debt issues. (But) I don’t see any real impact (on our business) yet.”

With regard to our specific investments, although the end of the quarter was highly volatile in reaction to a spate of economic data, our portfolio was fairly consistent, with few changes made amongst names during the last three months. This has less to do with inactivity on our part and more to do with the high-quality nature of the portfolio as we have found numerous opportunities to buy superior business models at attractive valuations over the past year.

Portfolio Review: U.S. Equity Growth Fund

Second Quarter 2010



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Sector Diversification vs. Russell 1000 Growth Index

- We continue to underweight consumer discretionary. We are not particularly sanguine about U.S. discretionary spending, and we continue to have a difficult time finding true growth companies within the staples space.
- Our overweight sectors have been driven by the strong fundamental outlook for both established and emerging-market energy usage and export growth opportunities for highly-differentiated industrial and technology companies.

Sector	Q2 '10	Benchmark	Diff	Q1 '10	Q2 '09
Consumer Discretionary	6.25	13.80	-7.55	6.86	9.31
Consumer Staples	6.62	10.07	-3.45	6.29	6.80
Energy	9.02	10.06	-1.04	8.90	9.41
Financials	7.97	5.10	2.87	8.39	8.31
Health Care	16.75	10.91	5.84	16.95	19.84
Industrials	18.54	13.17	5.37	18.06	10.51
Information Technology	34.84	31.19	3.66	34.55	35.81
Materials	--	4.66	-4.66	--	--
Telecommunication Services	--	0.86	-0.86	--	--
Utilities	--	0.18	-0.18	--	--

N.B.: Figures may appear not to add up due to rounding.

Source: Brown Advisory

Benchmark: Russell 1000 Growth

Holdings and allocations are subject to change.

Portfolio Review: U.S. Equity Growth Fund

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Quarterly Attribution Detail by Sector vs. Russell 1000 Growth Index

Sector	Portfolio		Russell 1000 Growth		Attribution Analysis			
	Average Weight	Total Return	Average Weight	Total Return	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
Consumer Discretionary	6.81	-5.91	11.09	-9.62	-0.06	0.46	-0.19	0.22
Consumer Staples	6.41	-2.64	15.45	-8.91	-0.09	1.00	-0.63	0.28
Energy	9.04	-13.24	4.19	-14.83	-0.17	0.10	0.07	0.00
Financials	8.08	-21.91	5.49	-16.15	-0.11	-0.39	-0.20	-0.70
Health Care	16.44	-7.35	15.25	-11.41	0.08	0.65	0.00	0.74
Industrials	18.20	-7.24	11.05	-10.28	0.11	0.38	0.22	0.72
Information Technology	35.02	-6.17	32.26	-12.17	-0.04	2.03	0.15	2.15
Materials	--	--	3.82	-15.13	0.12	--	--	0.12
Telecommunication Services	--	--	0.61	-0.78	-0.09	--	--	-0.09
Utilities	--	--	0.80	-8.93	-0.04	--	--	-0.04
Total	100.00	-8.32	100.00	-11.74	-0.30	4.24	-0.58	3.41

Allocation Effect: Measures the impact of the decision to allocate assets differently than those in the benchmark.

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.

Portfolio Review: U.S. Equity Growth Fund

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Quarterly Attribution Detail by Sector vs. S&P 500 Index

Sector	Portfolio		S&P 500		Attribution Analysis			
	Average Weight	Total Return	Average Weight	Total Return	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
Consumer Discretionary	6.81	-5.91	10.25	-10.67	-0.01	0.55	-0.20	0.34
Consumer Staples	6.41	-2.64	11.17	-8.13	-0.17	0.60	-0.28	0.16
Energy	9.04	-13.24	10.93	-12.75	-0.00	0.04	-0.05	-0.01
Financials	8.08	-21.91	16.65	-13.43	0.16	-1.65	0.81	-0.67
Health Care	16.44	-7.35	11.76	-11.78	-0.01	0.53	0.19	0.71
Industrials	18.20	-7.24	10.62	-12.27	-0.08	0.58	0.42	0.92
Information Technology	35.02	-6.17	18.76	-12.31	-0.20	1.20	1.03	2.04
Materials	--	--	3.49	-14.98	0.11	--	--	0.11
Telecommunication Services	--	--	2.83	-4.24	-0.22	--	--	-0.22
Utilities	--	--	3.54	-3.77	-0.29	--	--	-0.29
Total	100.00	-8.32	100.00	-11.43	-0.71	1.86	1.92	3.10

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Quarterly Contribution to Return

- As concerns about a weakening global economy heightened, a more defensive business model like SRCL (medical waste services) attracted investor interest.
- Legislative concerns dragged MasterCard down during the quarter. It now seems that the worst case scenario for credit card exchange fees is no longer on the table, so that should help MA as we move forward.

Top Five Contributors

	Name	Avg. Weight	Total Return	Contribution to Return
SRCL	Stericycle Inc.	3.49	20.33	0.63
CRM	Salesforce.com Inc.	2.68	15.27	0.34
NTAP	NetApp Inc.	3.03	14.66	0.33
AAPL	Apple Inc.	4.60	7.03	0.23
IDXX	IDEXX Laboratories Inc.	2.88	5.82	0.09
	Total	16.68	12.17	1.62

Bottom Five Contributors

	Name	Avg. Weight	Total Return	Contribution to Return
GOOG	Google Inc. (CI A)	3.78	-21.54	-0.83
MA	MasterCard Inc. (CI A)	3.66	-21.40	-0.82
QCOM	QUALCOMM Inc.	3.38	-21.31	-0.73
JEC	Jacobs Engineering	3.44	-19.36	-0.69
ABB	ABB Ltd. ADS	3.11	-20.88	-0.65
	Total	17.36	-20.75	-3.71

N.B.: Figures may appear not to add up due to rounding.

Source: Brown Advisory

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Key Additions/Deletions

- Our discipline of “one in, one out” was in evidence during the quarter as we made two swaps: Amphenol was funded from our proceeds on the sale of Ametek. Amphenol is likely to grow at a faster pace over the next few years as the end markets it serves (aerospace) look to increase their growth rates.
- PetSmart has been a very good stock for us over the past several years. As its growth rate slows due to full penetration of its U.S. store base, a swap into the faster growing Urban Outfitters makes a lot of sense to us.

Portfolio Activity

	Additions	Sector
APH	Amphenol Corp. (CI A)	Industrials
URBN	Urban Outfitters Inc.	Consumer Discretionary
	Deletions	Sector
AME	Ametek Inc.	Industrials
PETM	PetSmart Inc.	Consumer Discretionary

Source: Brown Advisory

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