8182 Maryland Avenue, 6th Floor
St. Louis, Missouri 63105
314.727.7211, fax 314.727.6068

Summit Strategies Group

MEMORANDUM

Date: September 30, 2014

To: City of Jacksonville Police and Fire Pension Plan

From: Daniel J. Holmes

Subject: Review of Brown Advisory

Brown Investment Advisory Incorporated ("Brown Advisory") has approximately $17.6 billion in assets under management ("AUM") in the now closed Large Cap Growth strategy. This strategy is the flagship of the firm as it represents approximately two-thirds of the firm's AUM ($23.7 billion as of September 30, 2014). The strategy is closed to new separate account investors who are not currently in their pipeline. The mutual fund remains open to new investments. The firm is 70% broadly owned by all current employees with the remaining 30% owned by members of the board of directors and a small group of clients and investors.

Ken Stuzin is the lead portfolio manager of the Large Cap Growth strategy and has been with the firm since July 1996. Mr. Stuzin has 28 years of investment experience and is supported by a deep team of sector specific analysts. The team seeks companies that can support a 14% growth rate, which is approximately twice that of the average large cap company. The business model and lines of the company must support the high absolute growth rate through tactical organizational strategies. The bias toward high absolute growth rates has generally led to bias toward small cap companies within the large cap universe (mid cap bias).

Long-term rolling performance of the strategy continues to be strong relative to peers. History, however, has shown there are certain market environments where this strategy will struggle. Under rolling three-year observations, the Large Cap Growth strategy has outperformed the Russell 1000 Growth on a consistent basis over time with the exception of markets having momentum and ultra-high returns. The strategy is focused on not only high growth but sustainable high growth companies. High growth companies in euphoric, momentum-driven markets tend to work until they don't, with sudden underperformance often being result.

Underperformance year-to-date has been driven by a market rotation away from growth to value and away from small to large as investors have become defensive in anticipation of the end of QE III. The shift away from growth to value has been quite dramatic. The market has shifted into the slower growing utilities, energy, and materials sectors that generally trade in the bottom quintile of price-to-earnings, whereas Brown Advisory generally focuses on high growth, high price-to-earnings areas of the market. In addition, a shift away from smaller cap into slower-growing large to mega cap stocks has also been a headwind for the strategy given its mid cap bias.

Three consecutive years of underperformance has led to increased scrutiny of Brown Advisory by Summit and its clients; however, Brown Advisory has a deep experienced team of sector specialists who produce consistent long-term results. While not currently in favor, a higher growth profile and a mid-cap bias has historically added value over longer periods of time relative to more mature, slower growing large to mega cap stocks. With the end of the Fed's quantitative easing, we expect equity investors will begin to look toward higher earning stocks, many of which are relatively cheap now. Summit recommends Brown Advisory be put on watch for performance reasons, but no change in managers is recommended at this time.