

### Market Review and Positioning

The US equity markets saw their multi-quarter winning streak come to an end in 1Q2018. The strong stock market-performance of 2017 carried over into the New Year, with the performance in January the best it had been in 20 years. While broader indices such as S&P500 and Russell 1000 all ended the quarter in negative territory for the first time since 2015 (-0.76% and -0.7% respectively), Small and Mid-Cap indices fared somewhat better. For instance, the Russell 2000 small-cap growth index finished the quarter up 2.30%, the Russell 2500 SMID growth index was up 2.38%, and the Russell Mid-Cap growth index was up 2.18%. Specialized indices such as NASDAQ and Russell 1000 Growth also posted small positive returns in Q1 (+2.59% in the case of the former, and +1.41% in the case of the latter). Concerns that tit for tat tariff impositions by the US and Chinese governments on each other's exports would escalate into a full-fledged trade-war and cause inflationary pressures (and therefore the need for accelerated tightening on the part of the Fed) weighed on market sentiment, as did worries that high-flying technology companies such as the so-called FANGs (i.e., Facebook, Amazon, Netflix, and Google) might increasingly find themselves in regulatory cross-hairs. The degree of volatility seen in the quarter may not have been all that much greater than normal market gyrations, but it did come as a wake-up call to investors who in recent times (2016 and 2017 in particular) had grown used to unusually calm equity markets. For instance, there were only 8 trading days in all of 2017 in which the S&P500 traded up or down by 1%, whereas we have already seen four times that number just in the first quarter of 2018. Similarly, while we did not see even a day in which the S&P500 was off by 2% or more in 2017, we have already had three of them just in the first three months of this year.

In this product, we are maintaining our overweight in Technology and Consumer Discretionary sectors, as this is where we are finding good investment opportunities. Historically, the Healthcare sector has been one of our key sources of alpha. As we find compelling opportunities which meet our criteria, we would expect to see our exposure to this sector to increase.

During the quarter, we initiated new positions in a Consumer Discretionary name, a Financials name, and a Technology name. Our Consumer Discretionary name is a beneficiary of the growth in e-commerce worldwide, while our Financials name stands to benefit from the continued recovery in the financial sector.

Among the positions eliminated in the quarter is a Health Care company, CSRA Inc. (acquired by a General Dynamics), and an Industrials name (owing to a deteriorating competitive landscape).

### Portfolio Management Team

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#### **Bhavik Kothari, CFA**

VP, Portfolio Manager

#### **James Brown, CFA**

AVP, Research Analyst

### Outlook

Overall, our view is that the environment for equities remains healthy. We have all the elements in place for this outcome: strong corporate earnings, subdued wage growth in spite of the economy being in a state of full employment, low inflation, favorable effects from the US tax bill that was enacted late last December, and a still-benign monetary environment. We believe the biggest risk to this scenario is clearly the potential for the so-far limited tariff action between the US and China to balloon into an all-out trade war with everything that that implies – sharply higher inflation, faster-than-anticipated tightening on the part of the Fed, and the ripple-effects on the broader US economy from a trade war-induced slow-down in certain industries and/or regions. However, since exports to China represent a very small percentage of the US economy (less than 1% of GDP in 2016, according to USTR data), we do not expect the economic fall-out to be too severe even if the current skirmish escalates into an all-out trade war. The adverse effects will likely be unevenly distributed, with certain sectors/industries feeling the impact more acutely than others. In addition, stock market valuations are also much more reasonable at present than they were even three months ago (the forward PE of the S&P500 index was 16.4x at the end of Q1, which is close to its 25-year average of 16.1x; vs. 18.2x at the end of December 2017).

## Performance Review

The composite's return for the 1<sup>st</sup> quarter 2018 was 4.61% gross and 4.35% net vs. the Russell 2500 Growth Index return of 2.37%.

**Past performance is not indicative of future results. Inherent in any investment is the potential for loss.** Gross performance results are presented before management fees, but after all trading commissions. Net performance is shown after the deduction of expenses and management fees of 1.00%. Actual investment advisory fees incurred by clients may vary. Performance results include the reinvestment of dividends and interest. Dividends received from ADRs are included net of foreign withholding taxes.

## 1<sup>st</sup> Quarter Performance Drivers

### LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
GrubHub Inc.	2.05	0.80
Nutanix Inc. A	2.03	0.75
CSRA Inc.	1.60	0.65
IAC/InterActiveCorp	2.24	0.55
Broadridge Financial Sol. Inc.	2.17	0.45
Veeva Systems Inc. Class A	1.41	0.35
Fortinet Inc.	1.64	0.35
Copart Inc.	1.95	0.34
Splunk Inc.	1.87	0.32
Domino's Pizza Inc.	1.33	0.29

### LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
PulteGroup Inc.	2.21	-0.27
Tractor Supply Co.	1.48	-0.25
Trimble Inc.	1.94	-0.24
China Lodging Group Ltd ADR	2.26	-0.21
Lions Gate Entertainment Corp A	0.70	-0.19
Prestige Brands Holdings Inc.	0.55	-0.16
Ionis Pharmaceuticals Inc.	1.11	-0.14
Eagle Materials Inc.	1.30	-0.13
Owens-Corning Inc.	0.95	-0.13
Nordson Corp.	1.78	-0.13

The holdings identified do not represent all of the securities purchased, sold or recommended. Information on the calculation methodology and a listing of every holding's contribution to the strategy's performance during the period is available upon request.

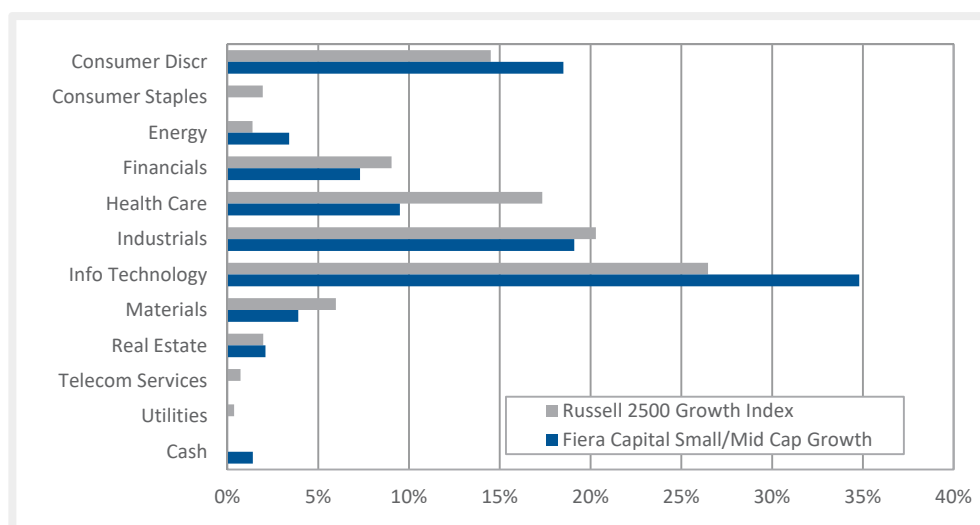
## Positive Impacts

- Strong stock selection in Technology, Energy, Real Estate, Health Care, and Industrials were the major contributors to performance. Our overweight perspective in Technology and Real Estate had a positive impact on performance.

## Negative Impacts

- Stock selection in Consumer Discretionary, Materials, and Financials negatively impacted performance.

## Sector Positioning



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Please see Important Disclosures on page 4.

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The Small/Mid Cap Growth composite was created on April 1, 2000 and includes all portfolios invested in U.S. equities (including ADRs) with strong earnings and growth characteristics and mid to small capitalizations. The product is benchmarked against the Russell 2500 Growth Index. The Russell 2500 Growth Index offers investors access to the small to mid-cap growth segment of the U.S. equity universe. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate small to mid-cap growth manager's opportunity set. The Russell 2500 Growth Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the costs of fees and expenses that will reduce returns. Typically, the Small/Mid Cap Growth portfolio is similar in composition to the benchmark except to the extent that the firm utilizes ADRs that are not included in the domestic index. Portfolios are generally comprised of individual stocks and cash equivalents. It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the costs of fees and expenses that will reduce returns.

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