

Market Review And Positioning

The US markets reached new highs in January, but the accompanying sense of euphoria has long since dissipated. Markets around the world have been choppy. Emerging markets as a group have been weak, and China is essentially in bear market territory. It could be that markets are adjusting to central banks gradually unwinding monetary stimulus. Expectations for strong synchronized global growth, which was consensus 6 months ago, have faded. Although Q1 earnings were very strong, concerns around trade wars, the pace of Fed tightening, and the age of the current bull market have all weighed on sentiment.

Growth beat Value for the month, the quarter and the first half. U.S. stocks outperformed their international peers in Q2. Within the U.S. market, small caps outperformed large caps, as did more narrowly focused indices such as the Nasdaq index. Thus, the Russell 2000 Growth index was up 7.23% in the quarter, vs. +3.43% for the S&P500 (TRI), and 3.16% for the Russell Midcap Index.

Sector leadership continued in Technology and Consumer Discretionary along with Energy being the best performer for the quarter. The worst performing sector was Industrials which were impacted by potential tariffs and the correlated fear of a decoupled slowing global economy impacted the yield spread providing the impetus for a negative quarter in Financials. Our significant underweight in the Consumer Discretionary sector and the corresponding overweight in Financials were the key structural negative drivers for the quarter.

We continue to evaluate the overweight and our conviction to Financials. Although Financials appear to be benefitting from an improving regulatory environment and increasing capital returns to shareholders, the global growth and net interest margin spread may not meet expectations. We continue to maintain commitments to secular growth areas most notably in over weights to Healthcare and Technology. We utilized the downside volatility in the quarter to add to Industrials. We added new positions in Honeywell which is a leader in digital automation and Caterpillar who was negatively impacted by tariff discussions but fundamentally continues to see acceleration in end market demand.

Outlook

We believe the biggest risk to the equity markets today is the possibility of an escalation in trade tensions with China and others. This has the potential to change the status quo (both for consumers and for Corporate America), the risk of unintended consequences is also high. Supply chains in the manufacturing sector are relatively inflexible, and it would take time to unwind these long-held relationships. In the meantime, corporate profitability (currently at record highs, having doubled in the last 20 years) would likely come under some pressure. Manufacturers accounted for 43% of S&P earnings last year and accounted for 41% of the growth of the index, so the impact on the broader market is potentially non-trivial.

On the other hand, multiples have compressed in recent weeks. Since our conviction levels on portfolio companies remain high, that represents a buying opportunity. However, it is important to remember that though the portfolio is

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Large Cap Growth

2nd Quarter 2018



relatively more immune to trade tensions, it cannot be divorced fully from broader market risk. Growth stocks typically outperform in mid-cycle and later-stage bull markets, but there may be some near-term risk also from the fact that Value looks cheaper/less crowded at the moment.

All that being said, we believe that our continued emphasis on stability and growth will help us safely navigate our way through this uncertain environment.

Past performance is not indicative of future results. Inherent in any investment is the potential for loss. All information is as of June 30, 2018 unless otherwise noted. Please see Important Disclosures on page 4.

Performance Review

The composite's return for the 2nd quarter 2018 was 5.21% gross and 4.95% net vs. the Russell 1000 Growth Index return of 5.76%.

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.

2nd Quarter Performance Drivers

LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
Twitter Inc	2.50	1.04
AMAZON.COM INC COM	4.33	0.72
Facebook Inc A	2.98	0.60
Microsoft Corp	6.59	0.55
VMware Inc	2.47	0.48
Visa Inc Class A	4.30	0.45
Apple Inc	4.05	0.42
UnitedHealth Group Inc	2.99	0.42
EOG Resources Inc	2.36	0.41
Costco Wholesale Corp	3.33	0.37

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
Red Hat Inc	3.25	-0.33
Starbucks Corp	1.59	-0.26
Match Group Inc	1.74	-0.25
Bank of America Corporation	2.78	-0.21
BORGWARNER INC	1.23	-0.20
Raytheon Co	1.86	-0.18
Caterpillar Inc	1.42	-0.13
JPMorgan Chase & Co	2.59	-0.13
Celgene Corp	1.06	-0.13
FedEx Corp	2.12	-0.11

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.

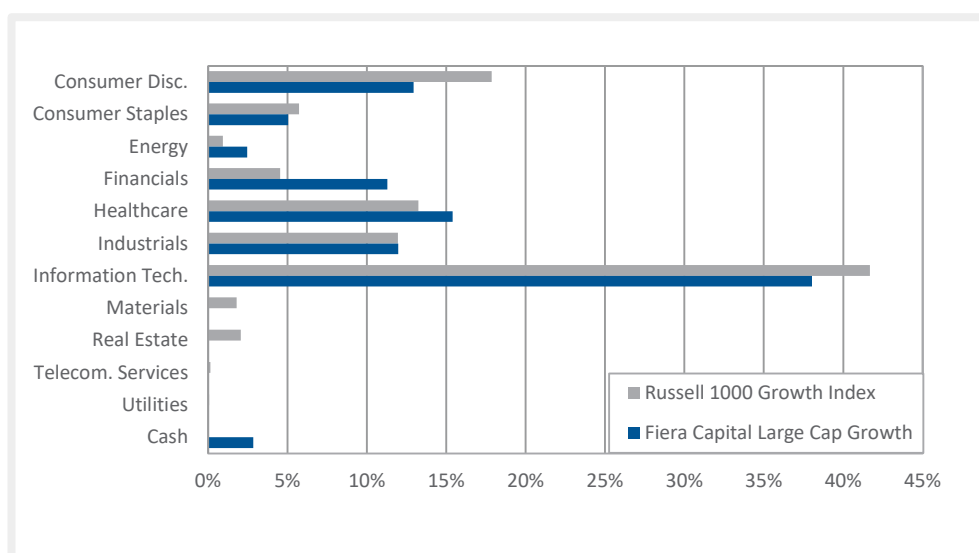
Positive Impacts

- Performance benefited from strong stock selection within Consumer Staples, Energy, and Technology.

Negative Impacts

- Stock selection in Consumer Discretionary, Financials, Healthcare, Industrials and Materials detracted from performance.

Sector Positioning



Please contact us or visit
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 if you have any questions.
 Please see Important Disclosures on page 4.

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