

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.

The Mid Cap Growth strategy outperformed its benchmark by 455 net basis points in Q2. Most of the alpha came from stock selection, though the overall impact of sector allocation was positive as well.

Our two biggest over-weights in the portfolio during the quarter were Healthcare (an overweight of 574 basis points), and Technology (an overweight of 865 basis points). On the flip side we were underweight Industrials by 630 basis points, which helped as the Industrial sector underperformed on the back of tariff fears. Although such directional sector bets are typically a residual of our bottom-up process, the overall effect was a net positive for us during the quarter.

Outlook

Overall, our view is that the environment for equities remains healthy. We have key 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).

Portfolio Management Team

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Performance Review

The composite's return for the 2nd quarter 2018 was 7.97% gross and 7.70% net vs. the Russell Mid Cap Growth Index return of 3.16%.

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	2.96	1.31
Devon Energy Corp	3.00	1.00
Align Technology Inc	3.05	0.98
FibroGen Inc	2.56	0.85
Illumina Inc	3.87	0.67
Domino's Pizza Inc	2.55	0.52
Live Nation Entertainment Inc	2.99	0.47
VeriSign Inc	3.00	0.46
Biomarin Pharmaceutical Inc	2.65	0.42
Tractor Supply Co	1.76	0.37

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
MercadoLibre Inc	2.33	-0.44
Red Hat Inc	3.55	-0.35
United Rentals Inc	1.87	-0.30
Dollar Tree Inc	1.56	-0.17
Workday Inc Class A	3.14	-0.15
Ameriprise Financial Inc	2.51	-0.13
Citizens Financial Group Inc	1.76	-0.13
BORGWARNER INC	1.26	-0.08
Rockwell Automation Inc	1.71	-0.07
Dolby Laboratories Inc	1.86	-0.05

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.

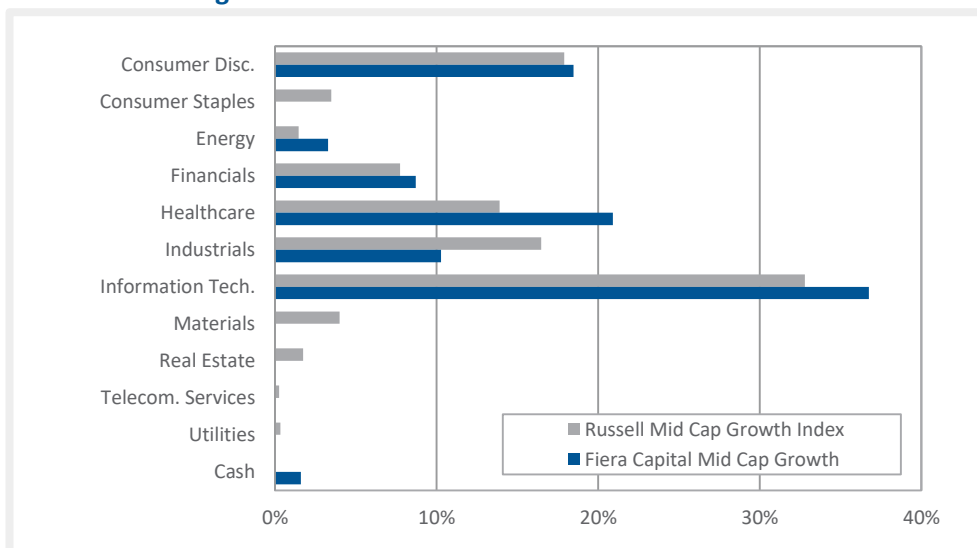
Positive Impacts

- Strong stock selection in health care, technology, energy, and consumer discretionary in the quarter positively impacted performance.

Negative Impacts

- The largest detractor to relative performance came from stock selection in industrials.

Sector Positioning



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The Mid Cap Growth composite was created on May 1, 2008 and includes all portfolios invested in U.S. equities (including ADRs) with strong earnings and growth characteristics and mid capitalizations. The product is benchmarked against the Russell Mid Cap Growth Index. The Russell Midcap Growth Index is a market capitalization weighted index representing the smallest 800 companies in the Russell 1000 Index. The average Russell Midcap Index member has a market cap of \$8 billion to \$10 billion, with a median value of \$4 billion to \$5 billion. The index is reconstituted annually so that stocks that have outgrown the index can be removed and new entries can be added. Typically, the 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 cost of fees and expenses that will reduce returns. FTSE ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of FTSE Russell. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.