

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.

Many of the stocks we own are focused on the domestic economy, and thus more immune to trade wars. However, in this environment we are more cognizant of valuations and are biased towards companies with more robust business models that can better withstand economic shocks. These typically tend to be larger companies within the small cap universe. We will be the first to admit that this approach has not worked so far, but our bottom-up work suggests that a change in tactical positioning is not warranted at this time.

The Small Cap Growth strategy underperformed its benchmark. As noted previously, we have a bias towards larger companies within the small cap universe (the portfolio weighted average market cap was 40% higher than that of the benchmark) – largely for purposes of risk-mitigation – and that hurt us in Q2.

Outlook

We believe the biggest risk to the equity markets today is the possibility of an escalation in trade tensions. 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, profitability (currently at record highs) would likely come under 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 sizable.

On the other hand, multiples have compressed in recent weeks, and that provides a buying opportunity. Though the portfolio is relatively more immune to trade tensions (as are small caps more broadly), they cannot be entirely immune from broader market risk. Growth stocks typically outperform mid-cycle and in 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.

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Performance Review

The composite's return for the 2nd quarter 2018 was 5.83% gross and 5.57% net vs. the Russell 2000 Growth Index return of 7.23%.

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	CONTRIB. TO PERFORMANCE
The Trade Desk Inc A	0.90	0.59
Evercore Inc A	1.94	0.43
Chegg Inc	1.15	0.34
BioTelemetry Inc	0.91	0.33
Chemed Corp	2.03	0.33
Icon PLC	2.40	0.29
Exact Sciences Corp	0.57	0.28
ICU Medical Inc	1.77	0.28
Nutrisystem Inc	0.72	0.27
Supernus Pharmaceuticals Inc	0.95	0.27

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
HFF Inc Class A	0.41	-0.33
Nektar Therapeutics Inc	0.57	-0.31
Beacon Roofing Supply Inc	1.10	-0.19
Mercury Systems Inc	1.14	-0.18
Marriott Vacations Worldwide Corp	0.93	-0.15
Blueprint Medicines Corp	0.19	-0.14
Cantel Medical Corp	1.09	-0.13
Curtiss-Wright Corp	1.05	-0.13
Achaogen Inc	0.35	-0.12
Pegasystems Inc	1.17	-0.12

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.

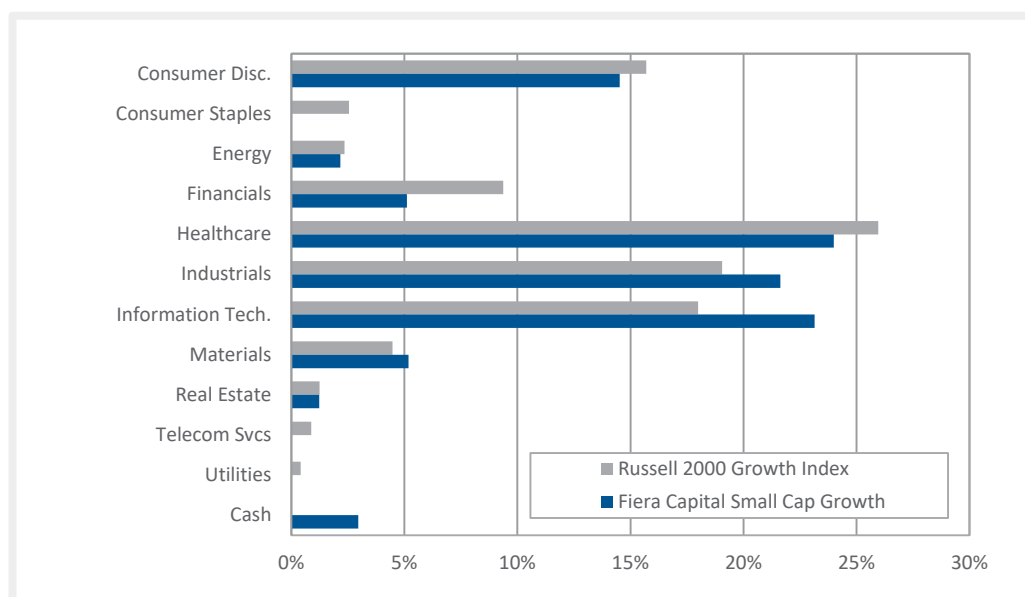
Positive Impacts

- Financials was the biggest positive contributor to portfolio relative performance.

Negative Impacts

- The largest detractors for the first quarter were Healthcare, Technology, and Real Estate sectors.

Sector Positioning



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The Small Cap Growth composite was created on January 1, 2009 and includes all portfolios invested in U.S. equities (including ADRs) with strong earnings and growth characteristics and small capitalizations. The product is benchmarked against the Russell 2000 Growth Index. The Russell 2000 Growth Index offers investors access to the small-cap growth segment of the U.S. equity universe. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small -cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate small-cap growth manager's opportunity set. The 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. Typically, the Small 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. Portfolios may have dispersions based on the size of the account and timing of deposit and withdrawals of funds or transfers of stocks. **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.

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Significant Flows: Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of more than 20% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the month after the cash flow. The significant cash flow policy applies to all periods shown.