

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 SMID Growth strategy underperformed its benchmark. The two major reasons for this were: (i) small caps dramatically outperformed mid-caps during Q2 as noted above, which was negative for a portfolio that was roughly 75% mid-cap (stable growth), and 25% small cap (emerging growth); and (ii) our Technology names (which had contributed significantly to portfolio outperformance in 2017 and in Q1) had a relatively muted Q2.

During the quarter, we introduced five new positions into the portfolio. We added four stable growth companies, a company with a strong presence in the healthcare/pharma/medical device areas (infection prevention), a biotech company with a historic focus on treating sleep disorders, and a growing presence in the area of hematology-oncology (blood cancer), another company is focused on providing core processing solutions to financial institutions, and a \$7bn-\$8bn market cap company, provides used car and salvage auction services in the U.S., Canada, Mexico, and the U.K. We also added an emerging growth biotech company with a strong product and research pipeline focused on disorders of the central nervous system, such as various forms of depression.

Technology is our biggest overweight in the portfolio, followed by the Consumer Discretionary sector. We are underweight Healthcare, but our exposure to this sector can be expected to rise as opportunities present themselves. We did add a few Healthcare stocks to the portfolio during Q2, and we would look to use future pull-backs to bulk up more in this area. The key thing to remember though is that as bottom-up stock-pickers the pace and timing of such efforts would very much depend on the availability of suitable candidates for the portfolio.

Though our Technology holdings lagged in Q2, our theses around these companies remain largely intact. We still like their growth prospects, business models and valuations, and expect them to generate significant alpha going forward. In short, we remain comfortable with our Tech overweight. We did nevertheless pare back some of the higher growth names in the portfolio and replaced them with companies that we believe are more insulated from macro-economic concerns.

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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), and 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 relatively more immune to trade tensions, it cannot be divorced fully 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.

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.

Performance Review

The composite's return for the 2nd quarter 2018 was 1.72% gross and 1.47% net vs. the Russell 2500 Growth Index return of 5.53%.

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
Supernus Pharmaceuticals Inc	1.57	0.44
Huazhu Group Ltd ADR	1.72	0.34
Live Nation Entertainment Inc	1.97	0.30
Domino's Pizza Inc	1.51	0.30
Fortinet Inc	1.94	0.30
Tractor Supply Co	1.43	0.29
Vail Resorts Inc	1.27	0.29
ICU Medical Inc	1.72	0.27
TripAdvisor Inc	0.91	0.26
Copart Inc	2.23	0.24

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
MercadoLibre Inc	2.03	-0.38
United Rentals Inc	2.33	-0.37
Reinsurance Group of America Inc	1.98	-0.27
Hilton Grand Vacations Inc	1.18	-0.25
Alkermes PLC	0.20	-0.24
Berry Global Group Inc	1.32	-0.23
BORGWARNER INC	1.40	-0.22
The Middleby Corp	1.15	-0.20
Crane Co	1.36	-0.20
Owens-Corning Inc	0.35	-0.15

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.

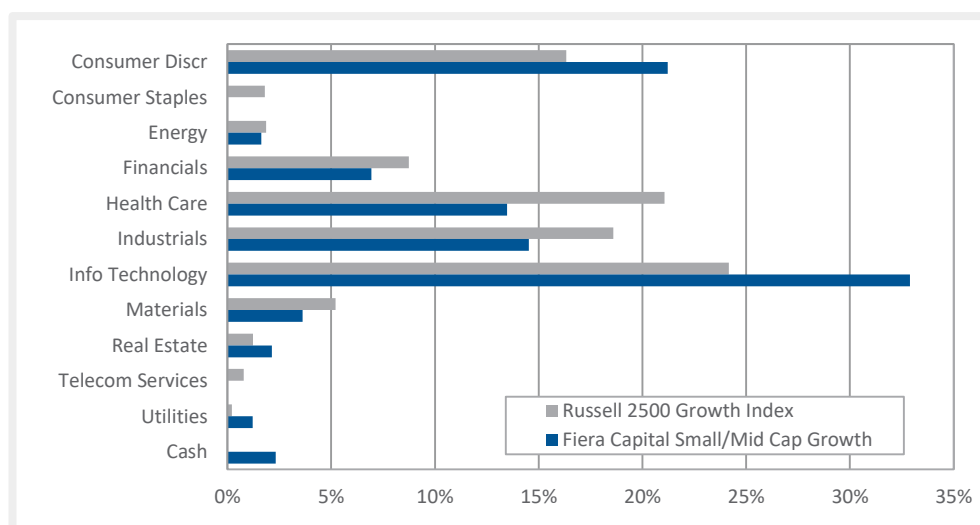
Positive Impacts

- The overweight to Consumer Discretionary and underweight to Industrials were the major contributors to performance.

Negative Impacts

- Stock selection in Technology, Industrials and Consumer Discretionary negatively impacted performance.

Sector Positioning



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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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