

### Market Review and Positioning

U.S. equity markets continued their winning streak in Q3 even in the face of headwinds such as a strong dollar, on-going trade wars, the continuing emerging market weakness etc. Large Cap stocks did particularly well, as evidenced by the Dow (+9.6%), S&P 500 TRI (+7.7%), and the Nasdaq (+7.4%). Generally speaking, larger cap stocks outperformed their smaller cap peers during the quarter.

Stylistically, Growth continued to outpace Value across the market cap spectrum in Q3. For instance, the (large cap) Russell 1000 Growth index (+9.2%) handily outpaced Russell 1000 Value (+5.7%); while at the other end of the spectrum the small cap Russell 2000 Growth beat Russell 2000 Value +5.5% to +1.6%. Likewise, the Russell 2500 Value index lagged its Growth counterpart by a non-trivial 4.5 percentage points (+7.2% vs. +2.7%).

The portfolio returned +5.91% gross (5.65% net) in the quarter vs. the Russell 2500 Growth index return of +7.17%. Total sector selection was positive to the tune of 0.17%, led by a 0.33% contribution from Information Technology (overweight). This was partly offset by a -0.18% hit from Health Care (underweight) and a -0.12% negative contribution from the Consumer Discretionary sector (overweight). Stock selection detracted from performance. The leading detractors were Information Technology (-1.02%) and Health Care (-0.28%), with some offset from positive stock selection in Communication Services (+0.33%) and Energy (+0.21%).

An analysis of the underperformance reveals that the causes are limited to a small handful of stocks that fall into two main categories: (i) names held in the index but not in the portfolio, and (ii) names owned in the portfolio but not part of the index. In the first category were five of the larger names in the index by market capitalization. The index's largest market cap name is larger than what we typically tend to own in our portfolio, so we missed out on the 106% gain that it experienced during the quarter, at a cost to the portfolio of approximately 0.60%. Likewise, not holding an additional four names due to market cap size cost the portfolio an additional 0.48% in relative performance.

As for the second category, the portfolio took a hit in relative terms when three stocks held in the portfolio but not represented in the index posted sharp declines in what was obviously a strong quarter for the index. The Huazhu Group, a rapidly growing Chinese hospitality group that caters to the mid- to higher-end business and leisure travel market in that country, was down 23% in Q3 (we owned the ADRs in the portfolio). CBRE Group, the world's largest player in commercial real estate, was down 8%. The combined effect of these stocks on the portfolio in relative terms was negative.

### Portfolio Management Team

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Our biggest over-weights in the portfolio are Communication Services (4.26% overweight), Information Technology (4.24%), and Consumer Discretionary (2.08%) sectors. We were underweight Healthcare (6.32% underweight), and Industrials (3.55%). In addition, the portfolio had no exposure at all to the Consumer Staples and Utilities sectors, which are not traditionally Growth sectors.

In Q3 Russell changed some of their industry classifications, and many of our e-Commerce positions are now re-classified under Communication Services. This explains the rather sudden increase in our exposure to the Communications Services sector, and the resulting overweight.

It is important to note that all these sector over and under-weights are a function of the bottom-up and thematic work we do and where the opportunities are, and not driven by any top down considerations. Thus, our exposure to the Healthcare sector (to name just one) can be expected to rise as opportunities present themselves.

### Outlook

We believe equity markets currently discount the impact of the strong dollar, the current pace of fed policy tightening, and emerging market weakness. They also seem to be largely ignoring escalating trade tensions, especially vis-à-vis China. Will that change going forward? That remains to be seen. It can be reasonably argued that an escalation in trade wars would depress corporate profits, especially in view of the interconnectedness of global supply chains. Manufacturers account for about 43% of S&P earnings and 41% of S&P growth. Their margins, which are at record levels (having doubled in the last 20 years), are potentially at risk from on-going trade tensions. While the SMID cap portfolio is not directly exposed to trade wars and tariffs, it is impossible to say what the collateral impact might be should tensions continue to ratchet upwards. Overall, though, we believe that our emphasis on stability and growth would help us safely navigate this uncertain environment.

## Performance Review

The composite's return for the 3<sup>rd</sup> quarter 2018 was 5.91% gross and 5.65% net vs. the Russell 2500 Growth Index return of 7.17%.

**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.

## 3<sup>rd</sup> Quarter Performance Drivers

### LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
Fortinet Inc	2.43	1.00
Veeva Systems Inc Class A	2.37	0.88
IAC/InterActiveCorp	1.61	0.60
GrubHub Inc	1.30	0.60
Splunk Inc	2.07	0.42
Ultimate Software Grp Inc	1.79	0.41
Broadridge Fin. Solutions Inc	2.63	0.38
Total System Services Inc	2.21	0.35
Jack Henry & Associates Inc	1.56	0.33
Icon PLC	2.03	0.31

### LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
Nutanix Inc A	2.59	-0.45
Huazhu Group Ltd ADR	1.36	-0.39
PulteGroup Inc	2.32	-0.33
Supernus Pharmaceuticals Inc	1.47	-0.30
Entegris Inc	1.81	-0.28
Eagle Materials Inc	1.11	-0.24
Copart Inc	2.39	-0.21
CBRE Group Inc	2.10	-0.17
Sage Therapeutics Inc	1.47	-0.15
Autoliv Inc	0.86	-0.14

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.

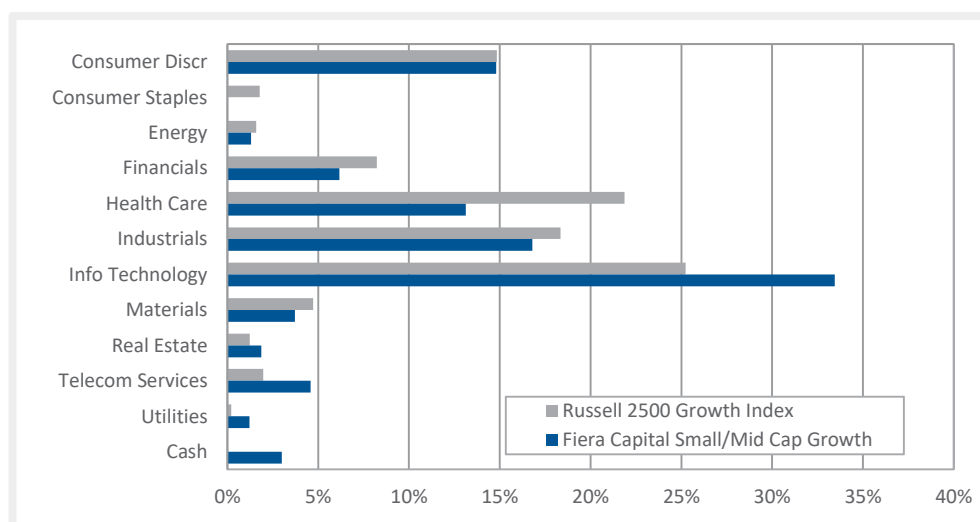
## Positive Impacts

- Stock selection in Communication Services and Energy.

## Negative Impacts

- Stock selection in Information Technology and Health Care.

## 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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