Mid Cap Growth

4th Quarter 2018

Market Review and Positioning

After posting steady gains over multiple quarters, markets around the world sold off indiscriminately in Q4. This was driven by three main concerns: tightening liquidity, China-US trade tensions, and an expected earnings slowdown. A belief that the growth momentum had stalled led to one of the biggest October drawdowns seen since the financial crisis, with most growth-oriented Biotech and Technology stocks experiencing dramatic multiple compressions and the so-called FAANG stocks especially hard-hit (they essentially ended the quarter with arguably the worst December on record). Value outperformed Growth on a relative basis in Q4, though both were weak in absolute terms. For instance, the Russell Mid Cap Growth Index lost -16% in the quarter, while its Value counterpart did marginally better (-15%). However, Growth still outperformed Value on a FY2018 basis (-4.8% for Russell Mid Cap Growth, vs. -12.3% for Russell Mid Cap Value).

The Mid Cap portfolio returned -15.6% (gross) and -15.8% (net) in Q4 vs. the Russell Mid Cap Growth Index (-16.0%) – a relative outperformance of +0.4% (gross) and +0.2% (net). Stock selection contributed +1.31% to relative outperformance, while sector allocation represented a 0.9% drag. Our top three overall contributors to performance were the Technology (-0.08% from sector allocation and +1.8% from stock selection), Industrials (+0.05% and +0.32% respectively), and Consumer Discretionary sectors (+0.01% and +0.25% respectively). All three sectors happened to be underweighted in the portfolio by -3.85%, -1.88%, and -5.27% respectively. On the other hand, our +7.2% overweight in the Communications Services sector, which now houses several social media names that were part of the Technology sector previously, also paid off handsomely (+0.14% from sector allocation, and +0.10% from stock selection).

At the other end of the spectrum, our biggest bet in the portfolio – namely, a +10% overweight in Healthcare – was less successful. Our overweight in Energy and underweight in Consumer Staples also went unrewarded.

For the full year 2018, the portfolio delivered an absolute return of +3.5% gross (+2.5% net), vs. a -4.8% return posted by the Russell Mid Cap Index. In other words, the portfolio's gross value-added was +8.3% for the year 2018. Almost +7% of this value-add came from stock selection, with the remaining +1.3% coming from sector allocation. We are especially pleased that the portfolio managed to deliver positive returns for the year, even after taking into account what was arguably one of the toughest 4th quarters in living memory for equity markets.

As we have noted previously, we have long had a bias towards quality companies in the portfolio, and while that was a drag on portfolio performance during the past few quarters when investors were insufficiently mindful of risk, that stance did help the portfolio weather the recent period of extreme volatility better than the benchmark.

Portfolio Management Team

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As Growth managers, the acceleration of revenue growth, margin-expansion, and potential for earnings leverage are fundamental to the way we pick stocks. We also believe that focusing on strong secular trends will ultimately help us outperform in a macro/cyclical driven downturn. Accordingly, we have used this opportunity to increase our exposure to higher quality companies with strong secular growth profiles in areas such as e-commerce, cloud computing, healthcare services, biotech, and immunotherapy, while maintaining a reasonable Emerging/Stable Growth balance.

Outlook

Tightening liquidity, a continuing slow-down in China and the Eurozone that has led to a fall in commodity prices, as well as the on-going trade tensions and the resultant inflationary pressures have all contributed to rising investor anxiety. The fact that the current expansion is the second longest one on record by far has also not gone unnoticed. With the widening of credit spreads in Q4 the appetite for risk has also fallen correspondingly. The U.S. economy appears to be on a solid footing, and signs of cooling have so far been confined mostly to cyclical sectors such as housing and autos. Despite that, investors worry that this country cannot remain an island of stability in a rapidly decelerating global economy, especially since many of these countries also happen to be significant export markets for U.S. businesses.

While all this suggests that market volatility would likely continue in 1Q2019, we intend to take full advantage of opportunities that may present themselves to bulk up in sectors and companies that are capable of providing sustainable (organic) growth in the future.

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Performance Review

The composite's return for the 4th quarter 2018 was -15.6% gross and -15.8% net vs. the Russell Mid Cap Growth Index return of -16.0%.

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 and expenses, 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.

4th Quarter Performance Drivers

LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
Red Hat, Inc.	2.38	0.96
Workday, Inc. Class A	3.46	0.34
Exelixis, Inc.	0.80	0.07
NVR, Inc.	1.84	0.02
U.S. Dollar	2.39	0.01
Wright Medical Group NV	1.47	-0.00
Nutanix, Inc. Class A	2.40	-0.04
Chipotle Mexican Grill, Inc.	1.55	-0.07
New Relic, Inc.	0.47	-0.10
Hyatt Hotels Corporation Class A	0.27	-0.12

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
Devon Energy Corporation	2.58	-1.43
Broadridge Financial Solutions	2.87	-0.84
Supernus Pharmaceuticals, Inc.	2.16	-0.79
Aptiv PLC	2.42	-0.68
Jazz Pharmaceuticals Plc	2.11	-0.65
WellCare Health Plans, Inc.	1.73	-0.63
Arista Networks, Inc.	2.90	-0.62
SAGE Therapeutics, Inc.	1.65	-0.58
Fortinet, Inc.	2.14	-0.54
MSCI Inc. Class A	3.05	-0.52

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.

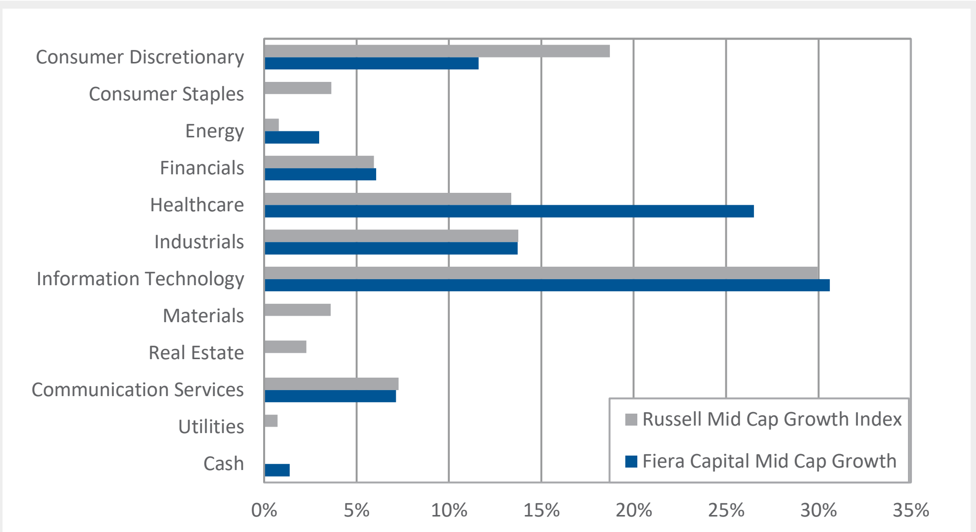
Positive Impacts

- Stock selection in Information Technology, Consumer Discretionary, and Industrials.

Negative Impacts

- Stock selection and overweight in Energy and Health Care.

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.