

### Market Review and Positioning

2019 turned out to be a strong year for US equity markets, with major indices posting new all-time highs several times during the year. The S&P 500 and Nasdaq indices were up +31.1% and +36.7% respectively in 2019 – their biggest one-year gains since 2013. A year ago – i.e. at the end of 2018 – uncertainty prevailed amongst investors. They were faced with a US-China trade conflict that looked likely to escalate, a weakening Chinese economy, weakness in Europe, a tight monetary policy on the part of the Fed, and a weak US housing sector. The prevailing concern was that policy makers – from the Trump Administration and the Fed to the ECB – may miscalculate and unwittingly lead the global economy into recession.

Those fears proved unfounded, and a weak Q4 of 2018 for the equity markets gave way to one of the strongest first quarter performances for the US equity market that we have seen in a long time, and a sharp V-shaped recovery. A more muted (albeit still strong) Q2 followed. Mid-caps strongly outperformed all other equity asset classes in both Q1 and Q2.

Despite some sensationalist headlines and a weak macro backdrop, equities continued to do well in Q3, with the S&P 500 and Nasdaq up +0.72% and +0.2% respectively. This was followed by a strong Q4 to finish off the year, with most major equity indices posting high single digit returns for the quarter.

For a period of time in the second half of 2019 Growth underperformed Value for the first time in several quarters, though there is no evidence as yet that it might portend the beginning of a sustained period of Value outperformance.

The All Cap portfolio underperformed the Russell 3000 Growth Index in Q4 by 0.85% (+9.82% vs. +10.67%) on a gross basis and 1.06% (+9.61% vs. 10.67%) on a net basis. Sector allocation was positive.

In Q4 the benchmark itself was propelled higher predominantly by the outsized performance of two sectors – namely, Technology and Healthcare – with Communications Services essentially neutral. After two quarters of severely lagging the index, Healthcare was up by a strong +17.0% in Q4, with Technology (which was up +14.2%) following in the #2 spot. All other sectors in the benchmark underperformed to varying degrees.

Thus, being underweight Industrials (one of the biggest underperformers in the benchmark) was a huge positive for the portfolio, as were some of our other underweights – notably, in the Consumer Discretionary, Materials, Energy, and Real Estate sectors. On the other hand, our underweight in Technology did not help; and though the portfolio was slightly overweight Healthcare overall, the fact that we had no exposure to Biotechs – the second-best-performing industry within Healthcare – was not helpful either.

Stock selection was negative in Q4, mostly within Tech and Healthcare. Cash (3.9% of the portfolio) was also a headwind in the quarter, accounting for roughly -43 basis points in performance.

### Portfolio Management Team

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### Outlook

The consensus outlook for 2020 is for mid-to high single digit returns. Risks abound, including:

- The potential for long-term deterioration in the bilateral relationship between US and China
- The uncertainty created by Brexit, the US presidential election-cycle, and conflicts in the Middle East including the one with Iran (both in terms of armed conflict as well as a heightened risk of cyber warfare)
- The impact from the extraordinary monetary accommodation that we saw around the world over the last 10 years (at its peak, US\$17 trillion worth of paper carried negative yields, though at last print it is down to \$12 trillion). Central banks are in a no-win situation throughout the world as they grapple with the challenge of winding down quantitative easing (QE) in the face of weakening global growth.

Trade conflicts represented the dominant theme for most of 2018 and through September 2019. Since September 2019, the relative underperformance of value/cyclicals has eased with banks, industrial distributors and semiconductors leading the way. The interest-sensitive sectors have lagged on a relative basis as the equity markets have come to believe in “reacceleration.” Jitters around “Medicare for All” have subsided and this has positioned the Healthcare sector for both defensive and secular growth. We expect signs of “reflation” or “reacceleration” to drive equity returns in 2020. Analogous to what occurred in the 2016/2017 period, a potential for economic reacceleration could drive “cyclical” rotation. The valuation premium enjoyed by Growth relative to Value is at an extreme and a reversal to the long-term mean could help the “Stable Growth” (i.e. “GARP-ish”) names in the portfolio. In the last couple of months, Financials and Technology have been the best-performing cyclicals. If this theme persists, we believe there is a good chance that Industrials, Materials and even Energy may start outperforming. In this “cyclical reacceleration” scenario, we expect Utilities, Staples and Real Estate to have a tougher time adding value.

Geopolitical tensions have added to risk in the equity markets; though much would depend on the immediate Iranian response, the US response beyond that, and the potential for and the nature of such “tit for tat” actions. For example, would critical infrastructure be impacted? Could business disruptions ensue as a result of cyber-attacks? It is hard to predict how these things would pan out in the coming year, but one thing is to be expected, and that is increased volatility around the globe for most asset classes, including equities, oil, foreign exchange, and fixed income.

## Performance Review

The composite's return for the 4<sup>th</sup> quarter 2019 was +9.82% gross and +9.61% net vs. the Russell 3000 Growth Index return of +10.67%.

**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 0.80%. 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.

## 4<sup>th</sup> Quarter Performance Drivers

### LEADING CONTRIBUTORS

| STOCK                                | AVERAGE WEIGHT | CONTRIBUTION TO PERFORMANCE |
|--------------------------------------|----------------|-----------------------------|
| Apple Inc.                           | 6.47           | 1.87                        |
| Microsoft Corporation                | 7.01           | 0.96                        |
| UnitedHealth Group Incorporated      | 2.78           | 0.88                        |
| Alibaba Group Holding Ltd. ADR       | 2.84           | 0.72                        |
| Facebook, Inc. Class A               | 3.21           | 0.48                        |
| Charter Communications, Inc. Class A | 2.62           | 0.46                        |
| Lam Research Corporation             | 1.63           | 0.41                        |
| Moody's Corporation                  | 2.41           | 0.38                        |
| JPMorgan Chase & Co.                 | 1.71           | 0.32                        |
| Visa Inc. Class A                    | 3.32           | 0.32                        |

### LEADING DETRACTORS

| STOCK                     | AVERAGE WEIGHT | CONTRIBUTION TO PERFORMANCE |
|---------------------------|----------------|-----------------------------|
| Arista Networks, Inc.     | 1.26           | -0.24                       |
| Verisk Analytics Inc      | 1.92           | -0.13                       |
| Stryker Corporation       | 2.60           | -0.09                       |
| Motorola Solutions, Inc.  | 1.14           | -0.07                       |
| Oracle Corporation        | 1.85           | -0.05                       |
| Aptiv PLC                 | 0.02           | -0.04                       |
| Ulta Beauty Inc           | 0.67           | -0.02                       |
| Waste Connections, Inc.   | 0.63           | -0.02                       |
| Starbucks Corporation     | 2.38           | -0.02                       |
| Nestle S.A. Sponsored ADR | 1.91           | -0.01                       |

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.

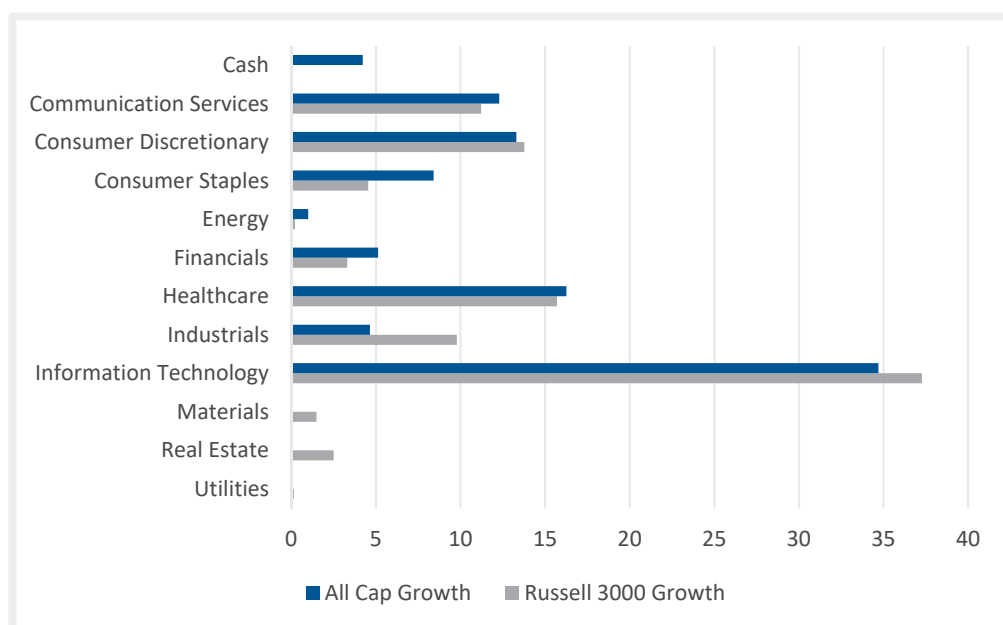
## Positive Impacts

- Stock selection in Consumer Discretionary and Financials.

## Negative Impacts

- Stock selection in Healthcare and Information Technology.

## Sector Positioning



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The All Cap Growth composite was created January 1, 2006, and includes all portfolio invested in U.S. equities (including ADRs) with strong earnings and growth characteristics and includes large, mid and small capitalizations. The product is benchmarked against the Russell 3000 Growth Index. The Russell 3000 Growth Index offers investors access to the broad growth segment of the U.S. equity universe. The Russell 3000 Growth Index is constructed to provide a comprehensive and unbiased barometer of broad growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate broad growth manager’s opportunity set. Typically the All Cap Growth portfolio is similar in composition to the benchmark except to the extent that the firm utilizes ADR’s 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.

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