Small/Mid Cap Growth

4th Quarter 2019

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.

Portfolio Management Team

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The SMID Cap portfolio outperformed the Russell 2500 Growth Index in Q4 by 1.11% (+11.67% vs. +10.56%) on a gross basis and 0.84% (+11.40% vs. +10.56%) on a net basis. Both sector allocation and stock selection contributed positively.

Q4 was an interesting quarter from the perspective of the performance of the benchmark itself, which was up +10.6% in the quarter, as noted previously. Out of the 11 GICS sectors that make up the Index, only one – i.e. Healthcare – delivered higher returns in Q4 than the benchmark overall. After two quarters of severely lagging the index, Healthcare was up by a strong +20.3% in Q4, far outpacing the second-best performing sector in the benchmark - namely Technology, which was up +9.98%. That serves to highlight the extreme lack of breadth that prevailed in the quarter.

The Fiera SMID Cap Growth portfolio has long been materially overweight the Healthcare sector. For the past two quarters of 2019 that represented a significant headwind, but in Q4 our faith in Healthcare was vindicated, with the sector providing a strong boost to performance.

In addition to Healthcare, the portfolio was overweight three other sectors – Communication Services, Technology, and Energy (in that order). While the Tech and Energy overweights were essentially neutral from a sector allocation point of view, this was more than offset by our strong stock selection within both sectors. The portfolio also benefited from having no exposure at all to Real Estate and Utilities – both of which were the two worst-performing sectors within the benchmark. Cash (3.1% of the portfolio) was a -28 basis point headwind.

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 4th Quarter of 2019 was 11.67% gross and 11.40% net vs. the Russell 2500 Growth Index return of 10.56%.

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
Arrowhead Pharmaceuticals, Inc.	2.60	2.00
Aimmune Therapeutics Inc	1.66	0.76
Immunomedics, Inc.	1.55	0.76
Wright Medical Group NV	1.39	0.66
Fortinet, Inc.	1.70	0.59
Splunk Inc.	2.34	0.59
Berry Global Group Inc	2.17	0.43
BeiGene, Ltd. Sponsored ADR	1.19	0.38
Western Alliance Bancorp	1.53	0.34
Molina Healthcare, Inc.	1.45	0.33

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIBUTION TO PERFORMANCE
SAGE Therapeutics, Inc.	1.28	-0.34
Etsy, Inc.	1.38	-0.29
TripAdvisor, Inc.	0.59	-0.17
Portola Pharmaceuticals, Inc.	1.87	-0.17
Insperity, Inc.	0.84	-0.13
KAR Auction Services, Inc.	0.49	-0.11
Veeva Systems Inc Class A	1.95	-0.09
Dunkin' Brands Group, Inc.	1.53	-0.09
bluebird bio, Inc.	1.05	-0.08
iRhythm Technologies, Inc.	0.71	-0.08

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.

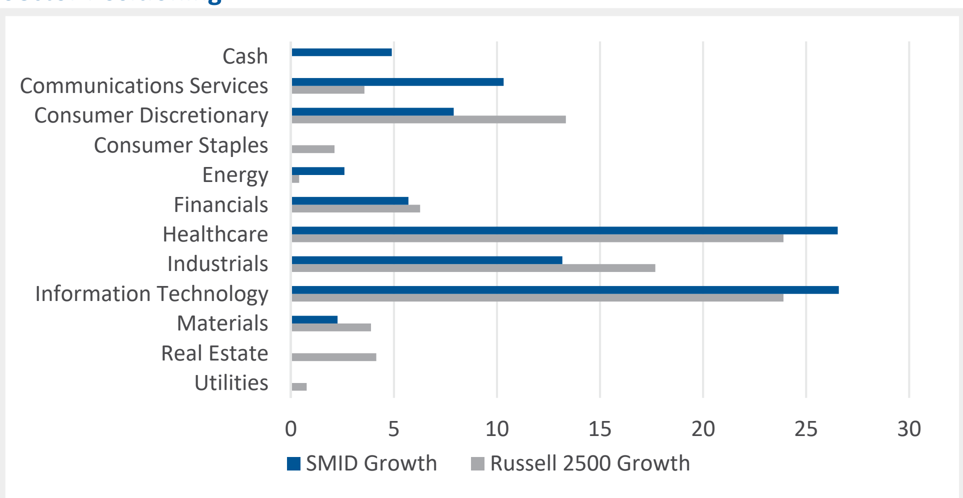
Positive Impacts

- Stock selection in Energy and Information Technology.

Negative Impacts

- Stock selection in Consumer Discretionary.

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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