All Cap Growth

1st Quarter 2020

Market Environment

A remarkably strong 2019 is now firmly in the rear-view mirror and feels such a long time ago. The market had climbed a wall of worry and hit record highs despite uncertainties around trade wars and worries over policy errors by the Fed. But all those concerns pale in comparison to the public health and economic fallout from the Coronavirus pandemic. The first quarter is already one for the record books – a story of essentially two halves. The first half of Q1 continued where 2019 left off, with a robust economy and strong earnings growth all but assured. All that changed in a mere matter of three weeks. From its peak on February 19, 2020, the market sell-off that ensued ranks in the worst 0.25% of returns over a three-week span since 1926, though it is worth noting that the market has recovered those losses in the following year 75% of the time[1].

Large cap indices such as the S&P 500 returned -19.6% in Q1, while the Russell 2000 (i.e. Small Cap) Growth index returned -25.8% and returns from the Russell Mid Cap Growth Index fell somewhere in between (-20.0%) as investors sought safety in larger cap names. However, Growth continued to outperform Value over all market cap ranges in Q1 as a whole, as well as during the market downturn that commenced on February 20th.

PORTFOLIO MANAGEMENT TEAM

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The All Cap portfolio was down -12.86% (gross) and -13.04% (net) in Q1 vs. a -14.85% decline posted by its benchmark the Russell 3000 Growth Index – an outperformance of +199 basis points (gross) and +182 basis points (net). It also outperformed by +191 basis points (gross) and +185 basis points (net) during the month of March, when the markets were getting whipsawed. Gratifyingly, through this turbulent period, both sector allocation and stock selection stayed positive.

Strong stock selection across the board was the main factor behind the quarterly outperformance – that alone contributed +161 basis points in value added. Our picks in the Consumer Staples, Consumer Discretionary, Staples, and Technology sectors were the biggest contributors from the point of view of stock selection. On the other hand, the value-add from sector allocation came almost entirely from our underweights in Industrials (which was the second worst performing sector in the benchmark) and Materials (the third worst performing sector in the benchmark). The cash in the portfolio – amounting to about 4.5% – was also a tailwind.

Past performance is not indicative of future results. Inherent in any investment is the potential for loss. All information is as of March 31, 2020 unless otherwise noted. Please see Important Disclosures on the last page. 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.

[1] Source: Empirical Research Partners

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Outlook

The spread of the novel Coronavirus (COVID-19) is having a significant negative impact on the global economy and the shutdown that was initiated to contain it is exacerbating the stress. The oil price war is an additional burden that's led to cuts to global capital spending and has pressured high yield credits. The future and its precise trajectory are still unclear. How it all plays out would determine what equity returns are likely to be over the next 12-18 months.

The government and the Fed have initiated swift action to try and shore up the economy in the wake of the massive disruption the pandemic has caused. Rates have been cut essentially to zero, enough liquidity is being provided, and a fiscal stimulus package of $2 trillion has been enacted. US banks were adequately capitalized going into this crisis and personal balance sheets were also in better shape than they were at the time of the Financial Crisis. All these are powerful forces that can help at least partly mitigate the impact of this pandemic. What we believe can truly turn investor sentiment around would be the approval of a new treatment regimen.

Valuations are beginning to look attractive. On a trailing PE basis, valuation is now back to its 20-year average. Some of the other metrics look more compelling. For instance, the spread between the free cash flow yield of large cap stocks and the 10-year treasury yield exceeds 5% at present, which is the second widest on record.

It is already clear to us that the next couple of quarters are not going to be very pretty. What happens beyond that would depend on the length of the current shutdown. From a portfolio perspective, we are well-represented in companies that benefit from long-term secular growth trends such as cloud computing, personalized medicine, cost containment in healthcare, and innovation more broadly. Many of these are also relatively more insulated from the present situation or are beneficiaries to an extent. Over the last couple of years, we have moved away from brick and mortar retailers. Though it hurt us for a couple of quarters, the move eventually paid off as these retailers succumbed to secular challenges facing the industry. More recently (at the end of Q3), we saw that high yield and investment-grade corporate spreads were getting tighter relative to their own history. Our take was that the market was being too complacent with the tight spreads and that refinancing risk was not being priced-in correctly, and as a consequence we moved away from companies with above-average debt levels. We also moved away from companies with stretched valuations, and those that were growing fast but without generating much cash. All these steps taken together have helped us stay ahead of our benchmark during this crisis, and we expect them to continue to do so in the months ahead.

All Cap Growth

LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
Amazon.com, Inc.	4.53	0.37
Chipotle Mexican Grill, Inc.	0.11	0.17
NVIDIA Corporation	0.26	0.05
Microsoft Corporation	7.60	0.05
U.S. Dollar	4.46	0.01
ServiceNow, Inc.	1.30	-0.02
Illumina, Inc.	0.14	-0.02
Advanced Micro Devices, Inc.	0.05	-0.04
CrowdStrike Holdings, Inc. Class A	0.05	-0.05
Adobe Inc.	1.77	-0.05

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
Apple Inc.	7.19	-1.01
Facebook, Inc. Class A	3.65	-0.69
JPMorgan Chase & Co.	1.57	-0.59
Accenture Plc Class A	2.01	-0.53
Starbucks Corporation	2.19	-0.53
Visa Inc. Class A	3.37	-0.52
Honeywell International Inc.	1.82	-0.51
UnitedHealth Group Incorporated	2.85	-0.49
Pioneer Natural Resources Company	0.80	-0.48
Boeing Company	0.37	-0.47

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.

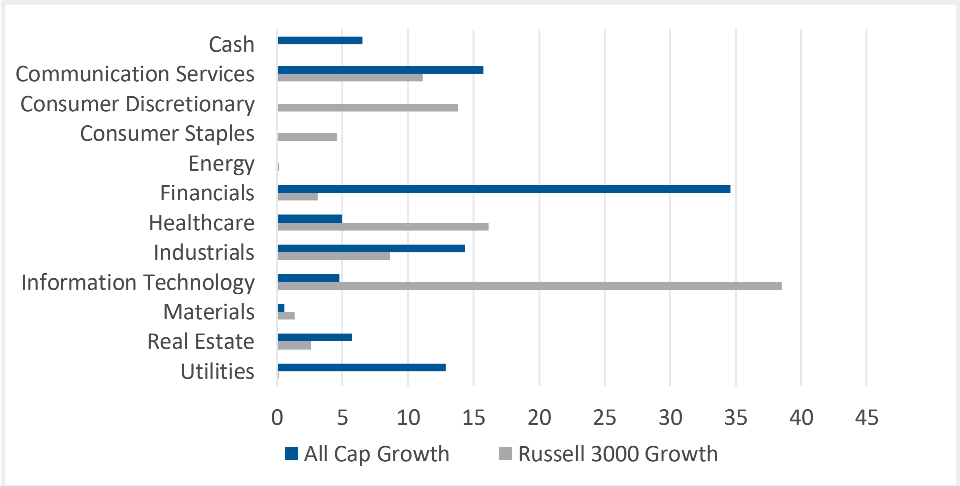
Positive Impacts

- Stock selection in Consumer Staples and Consumer Discretionary

Negative Impacts

- Overweight Energy, stock selection in Communication Services

Sector Allocation



Important Disclosures

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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.