American Fund

QUARTERLY UPDATE

First Quarter 2019

PERFORMANCE (%)

	RETURNS NET OF FEES*	RUSSELL 3000® INDEX
3 Mo.	15.06	13.88
1 YR	8.16	8.16
3 YR	13.88	12.85
5 YR	7.68	9.73
ITD (9 May 2008)	8.04	8.45

*American Fund B USD share class net of fees.

CHARACTERISTICS

	AMERICAN FUND	RUSSELL 3000® INDEX
Weighted Avg. Market Cap.	$207.3 B	$194.6 B
Weighted Median Market Cap.	$79.6 B	$74.0 B
Earnings Growth 3-5 Year Est.	14.1%	11.8%
P/E Ratio (FY2 Est.)	15.8x	15.5x
PEG Ratio	1.1x	1.3x

TOP 10 PORTFOLIO HOLDINGS

SECURITY	% PORTFOLIO
Visa Inc. Class A	5.0
Mastercard Incorporated Class A	4.2
Alphabet Inc. *	3.8
Berkshire Hathaway Inc. Class B	3.3
Microsoft Corporation	3.1
Lowe's Companies, Inc.	2.9
Edwards Lifesciences Corporation	2.8
Facebook, Inc. Class A	2.8
Apple Inc.	2.6
CarMax, Inc.	2.5
TOTAL	**33.0**

*Alphabet Inc. represents a 2.2% holding in Class C shares, and a 1.6% holding in Class A shares.

Characteristics and Holdings include cash and cash equivalents.

Review & Outlook

The American Fund aims to achieve capital appreciation through a combination of Brown Advisory in-house U.S. equity strategies. For the quarter the Fund returned 15.06% vs. 13.88% for the Russell 3000 benchmark. The strategy allocation for the Fund is a fixed apportionment of 75% to U.S. Flexible Equity and 25% to U.S. Small-Cap Blend.

U.S. FLEXIBLE EQUITY STRATEGY

The U.S. stock market and Flexible Equity portfolios rose sharply in the first quarter of 2019, recovering from the prior quarter's sharp decline. The Flexible Equity strategy outperformed its benchmark, the S&P 500® Index, which returned 13.7% in the first quarter.

The catalyst for the equity market reversing the dour mood of late 2018 was a signal from the Federal Reserve that it was no longer as set on increasing interest rates. This caused bonds to rally, and equities followed. It was hard not to like stocks in the first quarter, with prices and valuations returning to their high and interest rates low and now falling. Trade talks also appeared to be making some progress, and earnings reports from companies generally met expectations.

We continue to view equities as more attractive than bonds. With interest on U.S. Treasuries capitalized at 2.5%, the equivalent of a 40x price-to-earnings ratio (P/E), and stocks capitalized at 6.0% with P/Es of 16.5x on forward year earnings, the advantage of stocks is strong, in our view. With this spread in favor of stocks, one would have to either be very negative on the future of sustainable earnings of stocks or, given stocks' longer duration and greater sensitivity to increases in interest rates, very negative on the outlook for inflation and thus interest rates. Both of these circumstances are possible over time and indeed played some role in the sell-off late last year, but presently seem like distant concerns again.

The U.S. national college basketball tournament is in full swing at the moment. This is one of the best sporting events in America if you have a team still in it. Sixty-four teams compete in a single elimination tournament to see who will be the champion. Fans and nonfans alike also compete in bracket pools to see who can pick the winners as the tournament proceeds. There are favorites and underdogs and always some upsets. No one has yet picked a perfect bracket with 63 correct choices despite millions trying in national pools over the years. However, if you pick enough correctly, you can win your office pool, wagering $5 or $10 to win all or a piece of a $100 to $300 pool. Watching the teams compete and playing the brackets is an amusing pastime for the month of March and early April.

There are similarities between basketball brackets and investing. Anyone can play, players have their individual favorites and methods of picking, and it is the cumulative score that matters rather than each individual pick—you can miss some picks as long as you do not miss the eventual champion. The key differences are the odds and the ability to change your picks. The basketball brackets are played straight up with no point spreads to even the picks, so picking the favorites is a good strategy. But you are stuck with your picks once the games begin, even if your favorite is upset.

The odds in the investment game are expressed through differing valuations. Stocks of businesses with higher expectations receive higher valuations in the stock market, thus evening the odds relative to the lower expectation and lower valuation stocks as to which may return more to an investor. For example, a stock with a 40x P/E incorporates an expectation of faster or longer growth in earnings than a stock with a 20x P/E or a stock with a 10x P/E. In the long run, the stock that returns the most depends on how businesses perform relative to these embedded expectations, not just on how the businesses perform. A stock that is priced and expected to grow at 10% over time but delivers 15% will tend to outperform one that is priced and expected to grow 25% but delivers only 20%. Investors, changing their picks at will, bid the prices up or down as they revise their expectations. Expectations do not always align with results, which is one of the things that makes investing and office pools so interesting. This year, just one of the top four, and two of the top eight seeds, have made it to the Final Four of the basketball tournament. The winner, the University of Virginia, won its final three games despite trailing with seconds to go in each game. Amazing things happen in sports and also in markets from time to time.

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The Flexible Equity team searches for investment bargains among long-term, attractive businesses with shareholder-oriented managers—those with productive assets and productive managers. These businesses should have or should develop competitive advantages that result in good business economics, managers who allocate capital well, capacity to adjust to changes in the world and the ability to grow business value over time. Bargains in these types of stocks can arise for various reasons but are often due to short-term investor perceptions, temporary business challenges that will improve, company or industry changes for the better, or as-yet-unrecognized potential for long-term growth and development. Despite the occasional investment that may go awry and stretches when the general stock market is unrewarding, we are optimistic about the long-term outlook for equities of good businesses purchased at reasonable prices and our ability to find them.

U.S. SMALL-CAP GROWTH STRATEGY

The Brown Advisory Small-Cap Growth strategy outperformed its benchmark, the Russell 2000® Growth Index, which returned approximately 17% in the first quarter and also outperformed the broader Russell 2000® Index, which returned approximately 15%. Stock selection was wholly responsible for our relative returns. Portfolio cash was the largest detractor for the period. Overall, we are pleased that fourth quarter 2018 earnings results were strong enough to power the strategy to a relative advantage during a period that saw loss-making and higher beta stocks drive returns—a phenomenon that is usually unkind to our short-term comparative results.

Sizable changes in equity market velocity tend to pique investor curiosity. For this reason, we have been spending a bit more time answering client questions about the underlying nature of recent stock price gyrations. From these question-and-answer sessions, we have homed in on five often-repeated inquiries, which we share below:

What drove the equity market so strongly off its lows?

For a brief moment in time around Christmas, small-cap equity valuations were generally "reasonable" and, in some cases, less expensive than long-run averages. This provided a solid foundation for the market to move higher. Thus, as concerns over the Chinese economy waned, generally solid U.S. company earnings were announced, and the Federal Reserve pivoted 180 degrees from its reluctantly hawkish position to a decidedly dovish one, investor sentiment turned markedly. From an academic point of view, small-cap growth equities tend to have more of their market capitalization housed in the terminal value versus explicit forecast period in a discounted cash flow analysis, making them more susceptible to changes in discount rates. As long-term interest rate expectations declined, our primary benchmark likely benefited.

Given the market leadership in the first quarter, did the strategy perform better than you would have expected?

In short, yes. Portfolio earnings were solid in the fourth quarter of 2018, leading to strong stock selection. Furthermore, the strategy benefited from the purchases made in late 2018 of businesses in our "on-deck" circle, which finally hit price points where we believed the risk/reward dynamic favored our shareholders. Finally, we had several holdings suffer declines at the tail end of last year that were, in our estimation, too severe given present fundamentals. To a great extent, these companies rallied strongly in the new year, also aiding results. In other words, we probably shifted 100 basis points of alpha from the fourth quarter of 2018 into 2019.

What are the biggest risks to U.S. small-caps today?

There are some obvious and some less obvious risks to our investable universe. Most obviously, the present equity market and economic expansion are quite long by historical standards. While we acknowledge that the current recovery from the great financial crisis has been anything but normal, we still want to respect history and the cycle, so we put it on the list of concerns. As is typical of long bull markets, we see elevated valuation levels (after the quarter's bounce), particularly in certain pockets, and may be witnessing an accompanying initial public offering boom.

Less obvious risks include the slow rise in leverage across the small-cap space. Although our philosophy and investment filter tend to leave leverage fairly low across our portfolio, it is a fact that net debt/EBITDA ratios have risen to non-recessionary highs. Finally, we continue to ponder what the impact of rising ETF/index ownership of small-cap securities will be. At nearly 40% today, our best guess is potentially much higher short-term volatility under certain conditions, but more opportunity for long-term, fundamentally based active managers.

With valuations elevated, where are you finding opportunities, and how has portfolio exposure changed?

Typically, we have found that opportunities cluster together in particular market segments over time. However, at present, we are being highly selective, and the opportunities are bespoke to our research process and portfolio. Our team is aggressively digesting our investable universe to find potential long-term compounders at attractive prices—we are on pace to interview roughly 500 management teams this year.

In terms of portfolio exposure, the architecture has not changed meaningfully. We hope to preserve our historical downside protection through diversification, asset quality and attention to valuation. At the margin, we have reduced our pure technology weight and added diversity to our end market exposures. Despite some new additions to the space over the last quarter or two, we are making sure that we continue to skew the collective toward companies that make money as profits, not valuation, to help preserve value in less robust times.

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What is your outlook for the balance of the year?

Mindful of the risks highlighted above, our general view is fairly balanced. The U.S. economy appears to have enough steam to continue to grow at an adequate level. Corporate earnings growth has slowed, but still remains positive. The specter of rising rates which has tempered spirits, has diminished with the Federal Reserve's about-face. And, it would appear that U.S.-China trade relations are improving, not eroding. Thus, a grind-higher scenario on top of a strong start to calendar year 2019 is certainly possible. However, we believe any climb from these levels is unlikely to be straight up and should be more volatile. We believe that volatility is the friend of the long-term investor, and we will strive to be continually prepared.

In conclusion, we believe our investment team has never been stronger and that group productivity remains high. Although these are not short-term predictors of performance, we certainly believe that if we concentrate on the factors we can control, such as team and process, we can increase the likelihood of outperformance over the long term. We are pleased to be off to a positive start, but would not be surprised to give back a little of our relative lead if the nature of this "risk-on" rally continues. Our discipline will likely cause us to lean against the wind, trying to balance our offensive exposures with adequate defense as an insurance policy against the unknown.

As always, we thank you for your interest and support in the strategy, and look forward to updating you in a more detailed fashion at the halfway point of the year.

U.S. SMALL-CAP VALUE STRATEGY

The first quarter of 2019 saw a sharp rebound in small-cap company share prices. This snap back followed a particularly challenging fourth quarter in which fears of a rapidly slowing economy weighed on share prices. More positive commentary from management teams, along with the potential for relief on the U.S./China trade issue shifted the tide, with small-cap shares up over 17% by the middle of February, along with the broader markets. Small-cap shares weakened during the second half of the quarter, with the Russell 2000® Value Index ending up 11.9%, which marks the second best quarter over the past five years.

For the quarter, the Brown Advisory Small-Cap Fundamental Value strategy performed well both on an absolute and relative basis. During the significant run-up at the beginning of the quarter, the strategy trailed materially on a relative basis. Relative performance improved considerably, as the Index reversed course in the back half of the quarter. We were also pleased with the operating performance of our portfolio investments during the quarter.

While every sector of the Index posted positive performance, energy and information technology were the strongest individual sectors by over 600 basis points each. The one surprise for the quarter was the relative weakness (positive, but trailing the Index) of the health care sector, which along with information technology has led strong positive market moves over the past several years. Our performance was generally positive across the board, except for information technology and energy, which were both sizable detractors for the quarter. Within the information technology sector, Smart Global's Brazilian business suffered along with lower memory prices, which caused its share price to decline materially despite the already low valuation and sizable free cash flow generation. Within the energy sector, both of the spin-offs from Linn Energy, Roan Resources and Riviera Resources, traded down despite higher energy prices. We continue to like the cash flow profiles of both companies, especially compared to many of the investment opportunities in the energy sector, although that differentiation is clearly not appreciated by the market. As mentioned, our positive performance was broadly spread across the remaining sectors. Incidentally, two of our investments from the fourth quarter (Eagle Materials and Essential Properties) were sizable positive contributors to overall performance.

There were several notable corporate actions during the quarter. Nexstar announced its planned divestitures in connection with its anticipated close of Tribune later in 2019. The sales prices on the divestitures were much higher than the market's assumption, which, along with solid operating performance, drove Nexstar's share price higher. TCF Financial announced a merger of equals with Chemical Financial in January, and the market responded positively to the terms and valuation. We agreed that the transaction made sense on paper, but we did not like the underlying chemical business and used the strength in the shares to sell our position. Following a very active fourth quarter, investment activity during the first quarter was light. We made one investment during the quarter (versus eight in the fourth quarter).

Even after a decade-long bull market in small-cap shares, the fourth quarter demonstrated that volatility creates opportunities. With the pullback at the end of the first quarter, we are starting to see more new opportunities emerge. As the market continues to debate the broader macro issues, we will continue to focus on individual company performance, cash flows and valuation. We will not predict (or even pretend to know) when the next recession will emerge, but we do believe that our opportunistic approach and focus on valuation and cash flows will continue to generate attractive, long-term risk-adjusted returns.

Sector Diversification

- We base our investment approach on individual company selection and incorporate a reasonable balance of sector exposures as part of risk management. Companies in the same economic sectors can vary as greatly in their business economics and profiles as companies in completely different sectors.
- Our consumer discretionary weighting increased with strong returns from several holdings and our additions to **Booking Holdings** and **Alibaba**.
- Our financials weighting decreased due to the elimination of **Altaba**. Altaba is a financial holding company and its principal asset is stock in Alibaba. We sold Altaba in the first quarter to purchase Alibaba, so the financial sector weighting decreased and consumer discretionary sector increased. The underlying economic exposure did not change at all.

SECTOR	AMERICAN FUND (%)	RUSSELL 3000® INDEX (%)	DIFFERENCE (%)	AMERICAN FUND (%)	
	Q1 '19	Q1 '19	Q1 '19	Q4 '18	Q1'18
Communication Services	8.89	9.08	-0.19	8.84	8.49
Consumer Discretionary	15.26	10.37	4.89	13.97	12.76
Consumer Staples	3.19	6.53	-3.34	2.65	3.46
Energy	4.18	5.07	-0.88	4.06	4.19
Financials	20.02	13.18	6.85	22.74	24.74
Health Care	9.51	14.34	-4.83	9.37	8.51
Industrials	8.93	10.13	-1.20	9.04	10.33
Information Technology	24.49	21.09	3.40	23.83	22.22
Materials	1.40	2.95	-1.55	1.42	0.20
Real Estate	2.65	4.04	-1.39	2.52	2.85
Utilities	0.09	3.23	-3.14	0.10	0.07
Cash	1.39	--	1.39	1.46	2.18

Sector diversification includes cash and cash equivalents.

Quarterly Attribution Detail by Sector

- Attribution is a tool that shows the effect of sector allocation and stock selection relative to benchmark performance. This tool does not reflect how we manage investments and we believe it has significant limitations, but it is frequently requested, and we share it for that reason.
- The portfolio outperformed the Russell 3000 Index which increased 14.04% on a total return basis.
- Health care, consumer staples and ommunication services contributed the most to the portfolio's return as compared to the Russell 3000 Index. Health care and consumer staples had higher returns but lower weightings than the Index. Information technology had a slightly greater return than the Index and a larger weighting.
- Relative to the Index, financials and industrials were the biggest detractors despite their positive returns. The portfolio's financials holdings underperformed the Index due to the portfolio's higher weighting and the lower return of our holdings. Industrials underperformed due to its lower weighting in the portfolio relative to the Index and its lower return.

SECTOR	AMERICAN FUND		RUSSELL 3000® INDEX		ATTRIBUTION ANALYSIS		
	AVERAGE WEIGHT (%)	RETURN (%)	AVERAGE WEIGHT (%)	RETURN (%)	ALLOCATION EFFECT (%)	SELECTION AND INTERACTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	8.93	17.67	9.20	13.87	--	0.31	0.31
Consumer Discretionary	14.84	15.56	10.32	14.68	0.02	0.10	0.11
Consumer Staples	2.78	23.90	6.45	11.67	0.11	0.31	0.43
Energy	4.32	19.07	5.09	16.61	-0.02	0.12	0.09
Financials	21.33	7.62	13.79	8.86	-0.33	-0.20	-0.53
Health Care	9.44	14.82	14.56	8.20	0.30	0.60	0.90
Industrials	9.00	15.62	10.19	16.73	-0.02	-0.09	-0.11
Information Technology	23.50	20.79	20.26	20.78	0.18	-0.01	0.17
Materials	1.42	6.95	2.99	11.65	0.04	-0.06	-0.02
Real Estate	2.57	23.88	3.96	17.28	-0.04	0.15	0.11
Utilities	0.09	4.08	3.19	11.40	0.10	-0.00	0.10
Cash	1.78	0.59	--	--	-0.23	--	-0.23
Total	**100.00**	**15.38**	**100.00**	**14.04**	**0.12**	**1.21**	**1.33**

Sector attribution includes cash and cash equivalents.

Quarterly Contribution to Return

- **Mastercard** and **Visa**, the two biggest holdings in the portfolio, were the portfolio's largest contributors. Payment volume growth remains robust, and both companies have benefited from the secular shift away from cash. Reported profits from both the companies were ahead of expectations.
- **Facebook,** a detractor to results in the prior quarter, rebounded during the first quarter. The company's fourth-quarter results for revenues (up 30%), operating profits and earnings per share exceeded investors' expectations. Expectations had been lowered due to the privacy controversies surrounding Facebook. Despite the controversy, neither users nor advertisers appear to be leaving Facebook's services. For core Facebook, user growth and engagement in the United States improved.
- **Edwards Lifesciences** is a global leader in treating heart disease with a minimally invasive procedure for heart valve replacement known as transcatheter aortic valve replacement (TAVR). A top contributor to returns last year, Edwards' stock price advanced during the quarter after the company presented positive results from a study that demonstrated the benefits of TAVR over open-heart surgery in low-risk patients, thus expanding the size of its potential market.
- Amid slowing economic growth in China, **Alibaba** achieved strong revenue growth.
- **Berkshire Hathaway** builds value over time through a collection of cash-generating businesses, decentralized management, superior capital allocation across many opportunities and a shareholder-first mentality. Berkshire's share price may have been negatively impacted by the headlines of the poor results and dividend cut at Kraft Heinz, of which Berkshire owns 27%. Despite Berkshire's large ownership in Kraft Heinz, it equals only about 2% of Berkshire's value.
- **Hudson Group,** a travel retail company, reported weak results in early January that were impacted by a slowdown in duty-free spending by Chinese tourists during the fourth quarter and a downtick in new business wins after a period of better-than-average growth. Hudson's duty-free business represents about 25% of total revenue, with the rest coming from more stable convenience-oriented categories, which have performed in line with our expectations. The softness in new business wins (expansions into new airport locations) is expected to be at the lower end of the company's long-term range in 2019, a disappointment that has damaged the company's reputation early in its life as a public company. As a result, the company's board implemented a change in CEO that was announced during the quarter; the new CEO is a long time Hudson executive, Roger Fordyce, and we believe this change signals a proper urgency to reaccelerate the business back to its expected growth rate and to refocus the company on the long and attractive runway ahead of it in travel retail.
- Following its spin-off from Henry Schein and merger with Vets First Choice, **Covetrus** fell on weak Schein animal health results and a lack of disclosure on the new combined business. 2019 will be a transition year as Covetrus adjusts to being a stand-alone company, but revenue growth should accelerate in 2020.
- **SMART Global** fell in the quarter, as falling memory prices and a last-minute change in the local content rules for 2019 Brazil memory modules drove EBITDA estimates lower for the year. Due to volatility in the Brazilian business, we have kept our position size small. Outside Brazil, SMART's businesses performed largely in line with expectations.
- **Riviera Resources** underperformed during the first quarter despite reporting favorable fourth-quarter results and closing a large asset sale. We continue to believe that Riviera's current asset base is undervalued in the market today and the company's free cash flow generation, net cash position and large share repurchase authorization ($78 million) make it a unique opportunity within the energy space.

AMERICAN FUND TOP FIVE CONTRIBUTORS				
TICKER	NAME	AVG. WEIGHT (%)	RETURN (%)	CONTRIBUTION TO RETURN (%)
MA	Mastercard Incorporated Class A	4.03	25.02	0.94
V	Visa Inc. Class A	4.86	18.59	0.87
FB	Facebook, Inc. Class A	2.75	27.16	0.70
EW	Edwards Lifesciences Corporation	2.59	24.91	0.60
BABA	Alibaba Group Holding Ltd. Sponsored ADR	1.87	33.11	0.52
AMERICAN FUND BOTTOM FIVE CONTRIBUTORS				
BRK.B	Berkshire Hathaway Inc. Class B	3.46	-1.61	-0.08
HUD	Hudson Ltd. Class A	0.25	-19.83	-0.07
CVET	Covetrus, Inc.	0.09	-26.02	-0.03
SGH	SMART Global Holdings, Inc.	0.08	-35.35	-0.03
RVRA	Riviera Resources, Inc.	0.20	-11.46	-0.03

Contribution includes cash and cash equivalents.

Quarterly Portfolio Activity

- **Array BioPharma** is a diversified oncology company featuring three different business prospects: two approved therapies, 12 royalty partnerships and a strong pipeline. After years of operating as a contract research organization and building oncology drugs for other companies, Array has pivoted to building drugs for its own development. Viewed largely as having one of the top research and development units in oncology, Array can now focus on developing its own drugs while having financial stability from its royalty partnerships and approved therapies.
- **Blueprint Medicines,** similarly to Loxo Oncology, focuses on developing genetically targeted oncology therapies with a large market opportunity. Its lead drug, avapritinib, is designed for patients who have gastrointestinal stromal tumors and systemic mastocytosis, and suffer from a KIT and PDCFRA mutation. Thus far, the efficacy looks to be best in class with potential FDA approval in the fourth quarter.
- In February, Henry Schein spun off its animal health segment and merged with Vets First Choice, forming **Covetrus.**
- **Deluxe Corporation's** legacy business—manufacturing and selling checks—generates good cash flow and is declining at a predictable rate. The company is diversifying away from checks, and marketing solutions which now makes up more than 40% of the company's revenue and 25 to 30% of cash flow. A new CEO is taking a fresh look at the company's markets and competitive positioning, which may lead to the exit of less attractive businesses and greater focus on the strongest ones. The company returns cash to shareholders through both repurchases and a regular dividend, and we think valuation is attractive today at 5.5x EBITDA and a midteens free cash flow yield.
- **PROS Holdings** sells pricing guidance software to both business-to-consumer (B2C) and business-to-business (B2B) companies. Now four years into a cloud transition, PROS has a larger market opportunity, shorter sales cycle and implementation time, faster time to value, and better upsell opportunities. We think the company will benefit as it continues to migrate its existing base to cloud, and importantly, the secular trend in B2B companies toward e-commerce should be a multiyear tailwind for the company.
- **Stitch Fix** is an online personal styling service that offers a convenient and personalized way to build a wardrobe. The service combines data-driven algorithms and human stylists to put together personalized boxes of apparel and accessories for customers, who order ad hoc or at predetermined intervals. Stitch Fix has 3 million active customers, is growing at more than 20% and is nicely profitable. In our view, we believe Stitch Fix's differentiated offering will drive market share gains from legacy curators and discovery channels (like department stores) as apparel shopping increasingly moves online.
- **Alder Biopharmaceuticals** primarily focuses on developing therapies for patients with chronic migraines. Recently, the chronic migraine space has become very crowded with the potential for six new approved drugs over the next two years. Alder's lead drug, eptinezumab, is a year away from an FDA decision and will compete head to head with three other drugs that are already approved. We do not feel there is a clear differentiating factor around Alder's drug, unlike Biohaven Pharmaceutical's, a company we added to the portfolio last quarter, so we decided to swap the two names.
- We sold **Altaba** in the first quarter and invested the proceeds in Alibaba (BABA)—a company that was added to the portfolio in the third quarter of 2018—due to a narrowing spread in valuation between the two. Since Altaba's value was largely tied to its investment in Alibaba, our exposure to the underlying business did not change. We now own Alibaba directly rather than through an intermediary. Alibaba is the largest e-commerce company in China. We believe that Alibaba will continue to achieve above-average growth in China and other regions in Asia.

AMERICAN FUND PORTFOLIO ACTIVITY

ADDITIONS		SECTOR
ARRY	Array BioPharma Inc.	Health Care
BPMC	Blueprint Medicines Corp.	Health Care
CVET	Covetrus, Inc.	Health Care
DLX	Deluxe Corporation	Industrials
PRO	PROS Holdings, Inc.	Information Technology
SFIX	Stitch Fix, Inc. Class A	Consumer Discretionary
DELETIONS		**SECTOR**
ALDR	Alder Biopharmaceuticals, Inc.	Health Care
AABA	Altaba Inc.	Financials
EBAY	eBay Inc.	Consumer Discretionary
EVBG	Everbridge, Inc.	Information Technology
LOXO	Loxo Oncology Inc	Health Care
TCF	TCF Financial Corporation	Financials
WBT	Welbilt Inc	Industrials

- We eliminated **eBay**, one of the smallest holdings in the portfolio, due to its lagging overall e-commerce growth rates. We made our investment in eBay in 2014 and saw an opportunity for improvement in its namesake business and potential for its PayPal business. PayPal was spun out of eBay in 2016 and we kept that name. eBay was moderately successful as an investment and PayPal, to date, has been very successful, making the combination quite attractive overall.
- We sold **Everbridge** in January on valuation, upcoming management changes and worries around the sustainability of the company's recent record revenue growth.
- **Loxo Oncology** primarily focuses on developing genetically targeted oncology therapies that have large market opportunity. Its lead drug, Vitrakvi, is designed for patients who have non-small cell lung cancer and suffer from a TRK mutation. In the first quarter, Loxo was purchased by Eli Lilly for a 68% premium.
- In late January, **TCF Financial** announced a merger of equals with Detroit-based Chemical Financial, which increased the combined company's pro forma market cap to $6.9 billion. Although the company emphasized the pro forma valuation and shareholder-friendly economics behind the deal, we were not attracted by the chemical franchise. In particular, we thought Chemical lacked a differentiated asset strategy and had a weaker deposit franchise than that of TCF. We decided to exit from our position.
- We exited our position in **Welbilt** after the company provided a weaker-than-expected outlook, which increased the perceived risk of the company's leverage.

Disclosures

Past performance may not be a reliable guide to future performance and you may not get back the amount invested.

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Terms and Definitions for Representative Account Calculations

All financial statistics and ratios are calculated using information from FactSet as of the report date unless otherwise noted. **Market Capitalization** refers to the aggregate value of a company's publicly-traded stock. Statistics are calculated as follows: **Weighted Average:** equals the average of each holding's market cap, weighted by its relative position size in the portfolio (in such a weighting scheme, larger positions have a greater influence on the calculation). **Weighted Median**: the value at which half the portfolio's market capitalization weight falls above and half falls below. **Earnings Growth 3-5 Year Estimate** is the average predicted annual earnings growth over the next three to five years based on estimates provided to FactSet by various outside brokers, calculated according to each broker's methodology. **Price-Earnings Ratio (P/E Ratio)** is the ratio of the share of a company's stock compared to its per-share earnings. P/E calculations presented use FY2 earnings estimates; FY1 estimates refer to the next unreported fiscal year, and FY2 estimates refer to the fiscal year following FY1. **P/E / Growth Ratio, or PEG Ratio,** is the ratio of a portfolio's P/E Ratio divided by its Est. 3-5 Yr. EPS Growth rate. All of the above ratios for a portfolio are expressed as a weighted average of the relevant ratios of each portfolio holding, EXCEPT for P/E ratios, which are expressed as a weighted harmonic average. **Portfolio Turnover (3 yr. avg.)** is the ratio of the lesser of the portfolio's aggregate purchases or sales during a given period, divided by the average value of the portfolio during that period, calculated on a monthly basis. The **Average Weight** of a position or sector refers to the daily average for the period covered in this report of a stock's value as a percentage of the portfolio. The **Total Return** of an equity security is the sum of the return from price movement and the return due to dividend payments or other sources of income. Standard benchmark-, sector- and portfolio-level returns are the sums of the weights of each security multiplied by its return, summed and calculated daily and summed over the period covered by the report or by an otherwise-noted period. **Allocation Effect** measures the impact of the decision to allocate assets differently than those in the benchmark. **Selection and Interaction Effect** reflects the combination of selection effect and interaction effect. Selection effect measures the effect of choosing securities that may or may not outperform those of the benchmark. Interaction effect measures the effect of allocation and selection decisions (i.e., did we overweight the sectors in which we underperformed). **Total Effect** reflects the combination of Allocation, Selection and Interaction effects. Totals may not equal due to rounding. **Contribution To Return** is calculated by multiplying a security's beginning weight as a percentage of a portfolio by that security's return for the period covered in the report.