Large Cap Growth Equity

Geopolitical uncertainty, particularly surrounding tariffs, has continued to influence market performance. The U.S. economy and its equities are both relatively insulated from tariffs, which may help explain outperformance in 2Q. This dynamic could persist until more clarity about the end game for tariffs and trade becomes available.

	TAKEAWAYS	OUTLOOK
MACRO	• Global growth stable amid tariff talk • U.S. economy once again the best house on the block • Global inflation firmed, but still low • Central banks still accommodative, but Fed incrementally tighter	• Global expansion persists, despite tariff headwinds • U.S. expansion begins to mature • Inflation grinds slowly higher • Global monetary policy normalization continues; Fed leads the way
MARKETS	• Tariff uncertainty continued to influence market performance • U.S. equities posted solid gains but other asset classes were flat-to-down	• Policy uncertainty continues to weigh on markets • U.S. equities likely to outperform fixed income but diversification is key
BENCHMARK	• The Russell 1000 Growth Index added to its first quarter gain with a notably stronger showing in the second quarter, bringing the year-to-date return to 7.25% • Helped by healthy consumer spending driven by continued job market strength, the top performing *Retailing* and *Consumer Durables* industry groups lifted the *Consumer Discretionary* sector. • At the bottom of the sector list is *Industrials*, driven by an extremely weak showing in *Capital Goods* stocks, which were collectively down by more than 5%, by far the worst group in the benchmark. • Less than 40% of index constituents outperformed and the top dozen contributors were responsible for two-thirds of the benchmark return. • Factor returns were essentially flat for Momentum, Growth, and Profitability, while the Value factor return was deeply negative. • Small caps, which are more domestically oriented, assumed leadership from large caps, although most Mega-Cap stocks did well.	• At the end of September, an overhaul of the Global Industry Classification Standard (GICS) system will have a significant impact on the structure of major benchmarks. This is an effort designed to reflect the significant changes that have occurred in technology/telecommunications over the past decade, specifically the rise of social media and internet-centric businesses. • The current *Telecom Services* sector will become an industry group within a new, broader *Communications Services* sector that will also include a *Media & Entertainment* group, drawing names from the *Media* group within the *Consumer Discretionary* sector and from the *Software & Services* group under *Information Technology*. Individual company weights will not change, but the composition and weights of several industry groups and sectors will be affected. • Beginning in August and continuing through quarter end, we anticipate some degree of market impact, primarily driven by index funds that will be forced to structurally reallocate.

Portfolio Contributors and Detractors*

What helped:

- Allocation and selection were both positive in the *Real Estate*, *Materials*, and *Consumer Staples* sectors. Overall, the portfolio outperformed in 6 out of 11 sectors and 13 out of 23 industry groups.
- Takeover offers for *Cotiviti* (COTV) and *Foundation Medicine* (FMI), both for cash, provided a meaningful lift to results. The latter was the largest individual contributor to excess return, rising 75% in the quarter, as European drug maker *Roche Holdings* (RHHBY) will purchase the remaining 44% of FMI that it does not already own.
- These acquisitions were key to *Health Care* being the top sector contributor to outperformance, but both *Alexion Pharmaceuticals* (ALXN) and *Vertex Pharmaceuticals* (VRTX) rallied nicely on positive drug development news, making *Biotechnology* the top performing industry group.
- While the *Consumer Discretionary* sector matched the benchmark overall, *Retailing* was the portfolio's second best industry group contributor led by *Amazon* (AMZN) and *Netflix* (NFLX) once again. The latter was up by more than 100% year-to-date through June and we cut the position at the end of the quarter. Another top contributor, *Penn National Gaming* (PENN) rose 27% on state level approvals of its acquisition of *Pinnacle Gaming* (PINK) and the U.S. Supreme Court ruling in favor of sports betting nationwide.

What hurt:

- The *Financials* sector was the largest detractor from relative performance, driven by unfavorable stock selection within the *Diversified Financials* industry group. *Federated Investors* (FII) fell nearly 30% and was responsible for about one-half of the shortfall in the sector. Higher interest rates were expected to benefit the money market fund business, but net asset outflows in the first quarter left revenue and earnings well below consensus. With falling estimates and little encouragement from guidance, we sold the position.
- Stock selection within the *Semiconductors* group was particularly weak, making the *Technology* sector the second largest detractor. All of the positions in the portfolio registered absolute declines, led by *On Semiconductor* (ON), down 9%. The group seems to be bearing the brunt of investor concern over rising trade tensions, as most companies have significant operations in Taiwan, Singapore, and China. *Micron Technology* (MU) recently lost a court battle over patents in China to a state sponsored firm.
- In terms of factors, the Bloomberg Risk Model indicates that Value continues to perform poorly and was the largest detractor from portfolio performance among style factors. The most significant impact was seen in *Capital Goods*, which accounted for nearly one-half the value factor shortfall. We reduced exposure to *Capital Goods* during the quarter.

Portfolio Outlook

- Trade rhetoric and the imposition of higher tariff rates will likely continue to influence trading in the near term.
- *Technology Hardware* (including *Semiconductors*) and *Industrial Capital Goods* appear most impacted by the administration's current approach due to supply chain effects, but so far we haven't seen much in the way of evidence (in the form of earnings estimates) that a meaningful hit to business activity is expected.
- On the contrary, the outlook for earnings growth for the remainder of the year is strong, providing support for equities.

Performance	**Q2 2018**	**YTD**
Large Cap Growth Equity Composite (Gross)	6.08%	8.03%
Large Cap Growth Equity Composite (Net)	5.91%	7.67%
Russell 1000 Growth Index	5.76%	7.25%

Russell 1000 Growth Index Sector Returns	**2Q 2018**
Consumer Discretionary	9.64%
Energy	9.61%
Information Technology	8.64%
Russell 1000 Growth Index	**5.76%**
Real Estate	5.73%
Health Care	5.26%
Telecom Services	3.75%
Materials	2.93%
Utilities	1.70%
Consumer Staples	0.61%
Financials	-0.08%
Industrials	-2.69%

**The performance contributors and detractors quoted for the portfolio in the following paragraphs are those measured by a representative account and are included for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary. This data represents supplemental information to the GIPS-compliant presentation in the disclosure.*

Disclosure

BOSTON ADVISORS, LLC LARGE CAP GROWTH EQUITY COMPOSITE ANNUAL DISCLOSURE PRESENTATION										
	Firm Assets	Composite Assets			Annual Performance Results				3 Year Standard Deviation	
Year End	USD (billions)	USD (millions)	Number of Accounts	Carve Out %	Composite Gross	Composite Net	Russell 1000 Growth	Composite Dispersion	Composite	Russell 1000G
2008	$1.4	$30.5	<6	100%	-34.80%	-35.01%	-38.44%	*		
2009	$1.6	$22.2	<6	-	32.58%	32.19%	37.21%	*		
2010	$1.6	$26.4	<6	-	19.76%	19.39%	16.71%	*		
2011	$1.9	$48.6	<6	-	7.08%	6.76%	2.64%	*	17.08%	17.76%
2012	$2.2	$115.3	<6	-	14.49%	14.14%	15.26%	*	15.57%	15.66%
2013	$2.5	$233.6	6	-	35.44%	34.68%	33.48%	*	12.23%	12.18%
2014	$2.7	$402.1	7	-	14.02%	13.28%	13.05%	*	9.72%	9.59%
2015	$4.7	$438.6	12	-	5.43%	4.75%	5.67%	0.57%	10.91%	10.70%
2016	$4.7	$1,908.1	14	-	4.01%	3.34%	7.08%	0.15%	11.02%	11.15%
2017	$5.0	$2,142.9	12	-	28.09%	27.26%	30.21%	0.15%	10.30%	10.54%

* Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire period.

Boston Advisors, LLC Large Cap Growth Equity Composite contains all discretionary, fee paying, institutional accounts with a minimum portfolio size of $2 million that typically invest in large capitalization growth equity securities and for comparison purposes is measured against the Russell 1000 Growth Index. The Large Cap Growth Equity Composite was created December 31, 2006. Boston Advisors, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Boston Advisors, LLC has been independently verified for the periods April 1, 2006 through December 31, 2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Large Cap Growth Equity composite has been examined for the periods January 1, 2007 through December 31, 2017. The verification and performance examination reports are available upon request. Boston Advisors, LLC is an independent registered investment advisor located in Boston, Massachusetts. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. 2008 returns include carve out portfolios. Carve out segments are managed as separate portfolios with their own cash balances. Net of fee performance was calculated using the highest applicable stated management fee of 0.65% on total assets, applied quarterly. Prior to 3/31/2013, net of fee performance was calculated using the actual management fee for the account(s) within this composite. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not required for periods prior to 2011. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The Large Cap Growth Equity Composite fee schedule is as follows:

First $25 million 0.65%,
Next $25 million 0.60%,
Next $50 million 0.55%,
Balance 0.50%.