January 2017

Dear Friends,

After outperforming the S&P 500 in 2015, and through the first ten months of 2016, Stralem's LCES trailed the benchmark in Q4 by 2.85%, and trailed for the full year by 2.82%.

	Annualized Returns (%) as of 12/31/16							
	1 YR	3 YR	5 YR	7 YR	10 YR	15 YR	20 YR	10 YR Std. Dev.
Stralem Composite (Gross)	**9.14**	**6.65**	**11.32**	**10.89**	**7.52**	**7.64**	**10.68**	13.15
S&P 500	11.96	8.87	14.66	12.83	6.95	6.70	7.68	15.22
Difference	**-2.82**	**-2.22**	**-3.34**	**-1.94**	**0.57**	**0.94**	**3.00**	**-2.07**
Stralem Composite (Net)	8.46	5.94	10.57	10.14	6.78	6.67	9.61	13.15

Stralem's portfolio and philosophy of "Participation with Protection" paid dividends – literally and figuratively during the 6 quarters from January 2015 through June 2016. Throughout this period, stock selection, fundamental research, valuation and risk mitigation mattered once again. The S&P 500 total return was a mere 5.27% and there were several pull-backs, however brief, of 5-10%. The extraordinary investment environment (extremely high market returns, extraordinarily low volatility, and high benchmark stock correlations) that had been in place for six years through 2014, had normalized in 2015 and the first half of 2016 as concerns about the Federal Reserve raising interest rates, the Brexit referendum and the U.S. Presidential election all contributed to market jitters and capped returns while driving an increase in market volatility.

However, the market changed dramatically on November 8th, when Donald Trump was elected President along with a full Republican Congress. Despite the impression prior to the election, that Hilary Clinton that was the more bullish outcome, the major stock indexes jumped to new all-time highs after Trump won as investors bet that new infrastructure spending, tax cuts and a rollback in regulations would lead to a pickup in economic growth and inflation.

Investors drove a spectacular sector rotation in the final weeks of the year seeking exposure to sectors expected to benefit from a "pro-business" Trump Administration (infrastructure, energy, financials) while selling the defensive stocks (Utilities, Staples) and certain groups within Healthcare that would lose on a repeal of Obamacare (ACA). In Q4, the S&P 500 was +3.82% and the Financial sector, led primarily by banks, was +21%, while Industrials and Energy sectors were both up over 7%. Consumer Staples lost 2% and Utilities were essentially flat.

While equity markets were buoyed by the election, bond markets had the opposite reaction. Nervous about the Federal Reserve raising rates and the real potential of higher inflation driven by Trump's pro-growth and anti-trade policies, bond investors quickly rotated out and the 10-year Treasury yield, which reached an all-time low of 1.32% in July catapulted to 2.64% in December.

At the portfolio level, not owning the largest money-center banks (J.P Morgan, Bank of America, Wells Fargo, Citigroup, Goldman Sachs and Morgan Stanley) hurt performance by 1.27% as each of these companies returned in excess of 25% in the fourth quarter. Banks were seen to be beneficiaries of rising interest rates (which benefit margins) and the potential for an administration hell-bent on regulatory reform and reduction. Despite the optimism reflected by the stocks, we firmly believe these banks remain largely unattractive investments. Their financial statements and disclosures remain opaque, their business lines are challenged, and their European counterparts continue to struggle. Plagued by weak demand growth, a flat yield curve and increased regulatory scrutiny, they do not satisfy our fundamental investment or valuation disciplines.

While bank stocks became the new market darlings post-election, the Technology stocks were the new dogs. Many of the technology companies were enjoying strong gains pre-election and the many of the CEOs and Silicon Valley big shots were openly supportive of Hillary Clinton, thus drawing the ire of the President-elect. In addition, while some of the larger tech companies have billions of dollars stashed offshore that would benefit from a tax repatriation holiday, these companies have already relocated patents and intellectual property to tax advantaged locations and therefore pay taxes well below the U.S. corporate average. The sell-off in Technology stocks negatively affected the portfolio by a total of 65bps – led by the -5.2% quarterly return in Adobe Systems, the -5.5% return in Visa, and the -10.3% return in Facebook. All three companies are executing very well and our conviction in each name is quite strong given the business fundamentals and the secular trends in play for all three companies.

Excellent stock selection in several sectors including Consumer Discretionary (Disney +13.1%), Materials (Dow Chemical +11.3%), and Healthcare (UnitedHealth Group +14.8%) drove positive attribution for the fourth quarter. The quarter saw the launch of the latest movie in Disney's Star Wars saga, Rogue One, which impressed the critics, drove a strong box office, and is well on its way to becoming Disney's newest $1 billion+ success story. Dow Chemical continued to benefit from the expected synergies of its impending merger with Dupont as well as the idea that a Trump administration would be more likely to approve a "business-friendly" acquisition.

And despite all the political rhetoric and industry noise around the future of Obamacare (ACA), the market seems to recognize that regardless of the future of healthcare services in America, UnitedHealth remains the largest, most innovative and lowest cost provider – a formula that is certain to position UnitedHealth among the long-term winners as the Baby Boomer generation reaches retirement age and the demand for services accelerates.

As we turn the calendar to 2017, we await final Q4 corporate earnings results and the accompanying 2017 business outlooks provided by management teams. With the new President inaugurated in late January, it's a bit premature to make predictions about which potential policies will make it into legislation and which will not. So far the market has taken an optimistic view of the economic growth that might be possible, while conveniently ignoring the risk around protectionist policies and potential trade wars.

While we believe the U.S. economy is fundamentally sound and resilient, GDP growth remains below average at 2-3% growth and the removal of the incredibly supportive monetary policy in place since the financial crisis has begun. From a corporate perspective, revenue growth is highly correlated with GDP growth, and companies have diligently improved internal operations for the past few years driving operating margins to all-time highs. With low interest debt and cash applied to stock buybacks, the P/E ratio of the S&P 500 ended the year ~22.5x – well above its historical average.

The stock market has not produced a negative return since 2008 and many investors have been "forced" into equities due to lack of returns offered in fixed income. Perhaps indicating their level of conviction, the investment vehicle of choice has been the ever-expanding array of index funds and ETFs. While this strategy has clearly worked over the past few years, we often wonder if these investors are fully aware of the risks in ETFs. As the market rally enters its 9th year, the idea of owning ALL stocks in an index as well as owning more of the winning stocks is an investment concept we find a bit unnerving. Especially when an ETF guarantees the investor captures 100% of any downside. With increasing volatility and correlations among stocks reverting back to historical levels, we envision a market with a lot more ups and downs resulting in "winners and losers" – an environment far more conducive to fundamental, selective, active management than all-inclusive, market-cap weighted, passive management.

As always, Stralem remains disciplined and is staying focused on investing in quality companies and constructing a diversified portfolio that we believe will be successful irrespective of policy changes. The LCES investment objective has always been "Participation with Protection." While those who have chosen to stay out of the market in the name of risk reduction have paid and continue to pay a significant price, those who have invested passively, may, to their detriment, be giving the protection component short shrift. It is our belief that the extraordinary confluence of market conditions (extreme returns, low volatility and high stock correlations) continues to break down and "Participation with Protection" continues to be the optimal way to build long term capital. From the market peak prior to the financial crisis

(October 2007) through 2016, the LCES is ahead of the benchmark cumulatively by 6.57% gross of fees – even with the market achieving all-time highs.

Sticking to our approach during the run-up meant several years of very strong but relative underperformance when compared to the benchmark. The return to a more normalized market environment began in early-2015 and the portfolio's attendant outperformance was a welcome reminder about the importance of adhering to our discipline—even when, or especially when it was challenging to do so.

Please feel free to contact us if you would like to receive a copy of our quarterly "West of the Hudson" communiqué or to be added to any update lists. We appreciate your on-going interest in Stralem & Company and look forward to seeing you in the near future.

Sincerely,

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Performance Notes

Stralem & Company ("Stralem") is an independent, SEC registered investment adviser established in 1966. The Large Cap Equity Strategy™ Composite ("LCES") consists of fully discretionary large capitalization equity accounts. The investment objective of the LCES is to deliver above market returns with less risk during both up and down markets. The investment philosophy of the Large Cap Equity Strategy is predicated on the belief that there are four types of market environments, two types of bull markets and two types of bear markets each characterized by momentum and valuation factors. Market environments affect portfolio structure so it is critical to identify and prepare for changing market environments. The Large Cap Equity Strategy adds value by purchasing a set of fundamentally solid growth companies along with a set of companies that deliver strong cash flow and adjusting the balance between these two groups depending on where we are in the market cycle. Stralem defines the LCES as a conservative growth strategy that also focuses on preserving capital during down markets.

For comparison purposes, the composite is measured against the S&P 500 Index. The S&P 500 Index is widely recognized as a leading indicator of the U.S. equity markets. Prior to 7/1/2014, the Russell 1000 Growth Index was presented in addition to the S&P 500 as an additional benchmark for the LCES composite.

Stralem claims compliance with the Global Investment Performance Standards (GIPS®)). Compliance with GIPS has been verified firm wide by Ashland Partners & Company LLP from January 1, 1992 through September 30, 2016. 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 verification and performance examination reports are available upon request. The firm maintains a complete list and description of composites, which is available upon request. To obtain a presentation that complies with the requirements of the GIPS standards and/or a list and description of all firm composites, contact Andrea Lustig at 212-888-8123 or ALustig@stralem.com.

The Large Cap Equity Strategy Composite was created July 1, 2002.

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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Standard Deviation measures the dispersion of returns of a portfolio, or the extent to which possible returns can vary from the arithmetic mean. It is a measure of the volatility or risk of a portfolio.

The U.S. Dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. There are portfolios included in the composite which have directed brokerage arrangements and are not charged trading commissions by their broker. These portfolios represent approximately 4% of composite assets. Performance for these accounts do not include transaction costs, and it has been determined that there is no material impact on composite performance. Returns are presented gross of custodial fees and withholding taxes but net of all trading expenses. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Actual investment advisory fees incurred by clients may vary. Net of fee performance is calculated using a weighted-average fee based on actual fees. From 2008 to 2015, net performance is calculated using a model fee of 0.70%. From 2006 to 2008, net performance is calculated using a weighted-average fee based on actual fees. Prior to 2006, net performance is calculated using the highest client's management fee in the composite. From 2000 - 2005 the highest fee was 1.50%. Prior to 2000 the highest fee was 1.00%. A fee schedule is an integral part of a complete presentation and is described in Part 2 of the firm's ADV, which is available upon request.