STRALEM
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PORTFOLIO MANAGER COMMENTARY
Second Quarter 2019

STRALEM LARGE CAP EQUITY STRATEGY

SUMMARY

- After the best first quarter return for the S&P 500 in more than 20 years (+13.65%), the second quarter return (+4.30%) came with far more volatility and investor uncertainty about the true strength of the global economy. The index return was +4.05% in April, -6.35% in May, and +7.05% in June – when the market reached another all-time high. The first half of 2019 return was a whopping +18.54%, but investors continued to struggle with the best way to interpret the bevy of mixed macroeconomic signals.

- *In the second quarter, Stralem's Large Cap Equity Strategy ("LCES") returned 2.48% gross of fees, versus the S&P 500 index return of 4.30%, for a relative underperformance of 1.82%. While the quarterly underperformance is not surprising after two consecutive quarters of outperformance, the portfolio remains comfortably ahead of the benchmark through the record volatility of the past year, +12.27% vs. +10.42%,* once again highlighting the value of Stralem's *Participation with Protection* philosophy.

- It is difficult to concisely summarize the drivers of the relative underperformance in the second quarter, but the largest contributors were a) weak stock performance in a couple of our Industrials holdings, b) the break-up of DowDupont into three separate companies, and c) under allocation and stock selection in Financials.

- Analyzing the portfolio in Stralem terms, for the second quarter the Dominant Companies category within the Up-Market (-1.45 bps) detracted from performance (DowDupont, Fedex), while the New Industries category within the Up-Market (+7bps) and the High Yield category within the Down-Market (+20bps) provided the greatest boost to relative performance.

	Annualized Returns (6/30/19)							
	YTD 6/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	20 YR	10 YR Std. Dev.
Stralem Composite (Gross)	**16.7%**	**12.3%**	**10.6%**	**8.8%**	**12.9%**	**9.4%**	**8.3%**	11.4%
S&P 500	18.5%	10.4%	14.2%	10.7%	14.7%	8.8%	5.9%	12.7%
Difference	***-1.8%***	***+1.9%***	***-3.6%***	***-1.9%***	***-1.8%***	***+0.6%***	***+2.4%***	*-1.3%*
Stralem Composite (Net)	16.4%	11.5%	10.0%	8.1%	12.2%	8.6%	7.3%	

MARKET COMMENTARY

After the best first quarter return for the S&P 500 in more than 20 years (+13.65%), the second quarter return (+4.30%) came with far more volatility and investor uncertainty about the true strength of the global economy. The index return was +4.05% in April, -6.35% in May, and +7.05% in June – when the market reached another all-time high. The first half of 2019 return was a whopping +18.54%, but investors continued to struggle with the best way to interpret the bevy of mixed macroeconomic signals.

Without a doubt, there is much for equity investors to be bullish about in the current environment: the Federal Reserve publicly stating its strategy of raising interest rates was on hold (even implying the next move may be to cut rates); unemployment (3.6%) at a 50-year low; average wage growth (+3.4%) at the fastest level in nearly a decade; inflation hovering at a very reasonable 2% level; and consumer confidence in May reaching a level not seen since the year 2000.

However, not all the current data is bullish. The tariff threats and trade war with China, Mexico and potentially other European allies, continue without resolution at the same time geopolitical tensions with Iran remain elevated and political gridlock in Washington remains firmly intact. By raising short-term interest rates nine times over two years while trillions of dollars in Euro government bonds trade at a negative interest rate, the Fed has allowed the U.S. yield curve to invert – meaning short term interest rates are higher than longer term rates, an anomaly that almost always indicates an impending recession. While this time may be different for a variety of reasons, an inverted yield curve certainly gives some investors pause.

Outside the U.S., China is clearly struggling with the trade dispute, as its reported GDP for June fell to the lowest level on record (6.2%), while 2019 GDP estimates for the EU were reduced from 1.7% to 1.1%. This global slowdown, along with uncertainty about tariffs and trade resolution causes angst in corporate boardrooms and results in less investment in capital and labor – both of which are required to sustain future growth. In addition, the Trump tax cuts which initially led to a boost in earnings in 2018 have been incorporated and with costs rising, corporate margins, which peaked at all-time high in Q418, have begun to decline.

All these datapoints must be put in the context of where we are in the economic and market cycles. At the end of the second quarter, the economic expansion that began in the June 2009 quarter became the longest in history (121 months) – more than 2x the average post-World War II expansions. Similarly, the bull market in the S&P 500 that began in March 2009 became the longest ever (3,765 days) without a 20% correction.

This type of market backdrop clearly created some anxiety in the marketplace, as we saw a return to volatility throughout the quarter. Volatility can be frustrating, but it also produces stock winners and losers and allows fundamental active managers to have an opportunity to benefit from stock selection. This is the environment we crave and while it can be ugly and unpredictable, we believe it creates opportunities for outperformance that cannot be captured simply though owning the ETFs. We believe it's these environments that are most conducive to generating alpha.

PORTFOLIO PERFORMANCE & COMMENTARY

In the second quarter, Stralem's Large Cap Equity Strategy ("LCES") returned 2.48% gross of fees, versus the S&P 500 index return of 4.30%, for a relative underperformance of 1.82%. While the quarterly underperformance is not surprising after two consecutive quarters of outperformance, the portfolio remains comfortably ahead of the benchmark through the record volatility of the past year, +12.27% vs +10.42%, once again highlighting the value of Stralem's Participation with Protection philosophy.

	Q418	**YTD19**	**Q418-Q219**	**Last Year**
Stralem LCES (Gross)	-9.97%	16.73%	+5.10%	+12.27%
S&P 500	-13.52%	18.54%	+2.51%	+10.42%
Outperformance	*+3.55%*	*-1.81%*	*+2.59%*	*+1.85%*

It is difficult to concisely summarize the drivers of the relative underperformance in the second quarter, but the largest contributors were a) weak stock performance in a couple of our Industrials holdings, b) the break-up of DowDupont into three separate companies, and c) under allocation and stock selection in Financials.

The poor performance in Industrials was the direct result of fundamental issues at both Boeing (BA) and FedEx (FDX). Boeing was down 4% in the quarter as it deals with all the fallout from the two separate 737 Max crashes and the ensuing investigation into software and training issues. This type of situation is difficult for long-term investors as we firmly believe the company will correct the issue, test it extensively and get right back on track – it's just difficult to predict timing and what, if any, complications arise during the process. Boeing has an enormous backlog of demand for new, more fuel-efficient planes and with only one competitor, there is not tremendous risk to their future business. FedEx was down 9.1% in the quarter, as it remains mired in Trump's tariff and trade war with China. Not only does a trade war impact the overall volume of imports and exports, but international priority is Fedex's most profitable segment. So while U.S.-centric ecommerce growth is a boon to Fedex's domestic ground operation, a reduction in trade with China directly impacts earnings and has led to Fedex re-evaluating its capacity in this channel. It is our expectation that Fedex's growth will be constrained until the trade issues are resolved, but the result could mean more business and better business for the company, so we are patiently holding.

DowDupont (DWDP) is the result of a complex merger of two of the nation's largest chemical, plastics, and advanced agriculture companies that was orchestrated by activist investors Nelson Peltz and Dan Loeb. The vision was to initially merge the two firms and then split them into three separate, industry-leading companies with better technology, scale, and focus. In April, DowDupont spun-off the materials science-based plastics and packaging company named Dow (DOW), and then in June, it spun-out the crop, seed, and pesticides focused business to be named Corteva AgriScience (CTVA). The remaining electronics, safety, and nutrition focused business will be renamed Dupont (DD). Despite this process being communicated and set in motion at least a year earlier, the actual separation process proved confusing to investors and created three distinct businesses of different sizes with different cash flow dynamics and balance sheets and the stock action was very volatile for a month or two as investors decided which company they wanted to own. The stock volatility will likely settle down over time as investors come to better appreciate the different businesses.

In Financials, the steep decline in long-term interest rates (10-year treasury yield from 2.5% to 2.0%) and the ultimate inversion of the yield curve had a material impact on banks, insurance companies and even exchange companies. The stock at issue for our portfolio was Bank of New York (BK) which was down 12.0% in the quarter based on the flat/inverted yield curve impacting net interest margin at the same time the company is struggling to contain costs. The new CEO, Charlie Scharf, formerly of Visa, is excellent and while its early, we firmly believe he will deliver on the promise and help make Bank of NY a more efficient and effective custody bank. Offsetting Bank of New York's weakness was the strong returns of Intercontinental Exchange (ICE) +13.2% and Progressive Insurance (PGR) +11.0%. Intercontinental Exchange runs one of the world's largest futures and options exchanges that specialize in energy contracts and interest rate contracts – so volatility in those two assets classes, which we saw in Q2, drives demand and profits. Progressive Insurance continues to execute well, taking share in its main automobile insurance line while it leverages its customer base into selling more home and property insurance. Industry-leading margins also allow it to spend more on technology and advertising to remain in front of the competition.

Offsetting the weak performance in the quarter were some stocks with specific catalysts that benefitted performance, most notably, Facebook, Adobe, and Visa. Facebook remains squarely in the headlines due to investigations around data privacy breaches, and its market power, but the company produced a very strong quarter demonstrating the power of its enormous network effect (over 1 billion users) and ability to target customers in a cost-effective manner. The company also began to leverage the potential of Instagram which skews to a much younger, but equally desirable audience.

Adobe, the premiere player in digital content creation tools, represent somewhat of a derivative play on Facebook and the enormous growth in internet digital advertising. Whether it's a digital photo ad or a short form video used to highlight a product, Adobe's tools are critical in the formation and delivery. The company is also benefitting greatly from its transition to subscription-based pricing which helps create a smooth and predictable cash-flow stream that is attractive to investors and customers alike.

Visa reported another very strong quarter in Q1, beat the consensus earnings estimate and raised its guidance for the full-year to high-teens earnings growth. Our initial investment thesis continues to hold: that the global economy continues to move from cash to credit/debit and Visa remains the industry leader in a global oligopoly. In addition, while the acquisition of Visa Europe has not been perfectly smooth, the stable growth in the EU as well as Visa's ability to more effectively manage the company continues to provide a tailwind to results.

Analyzing the portfolio in Stralem terms, for Q2 the Dominant Companies category within the Up-Market (-1.45 bps) detracted from performance (DowDupont, Fedex), while the New Industries category within the Up-Market (+7bps) and the High Yield category within the Down-Market (+20bps) provided the greatest boost to relative performance.

PORTFOLIO ACTIVITY & OUTLOOK

The only change in the portfolio for the quarter was related to the break-up for DowDupont into three distinct companies. We decided to remain in Dow, the materials science company, and sold the shares of Dupont and Corteva Agrisciences that resulted from the spin-offs.

The Stralem philosophy is about preparing for the future rather than trying to predict it. We believe that despite the record length of this economic expansion and bull market, the portfolio is well suited for the additional market volatility that likely lies ahead. With the Fed on hold and possibly even cutting rates, and the U.S. economy stable at 2-3% GDP growth, we think investors will apply more focus to the trade war with China and its impact on global growth. The market wants a solution that will re-invigorate growth in the 2nd largest economy in the world and still one of the fastest growing. We remain skeptical that a superior deal can be completed, and we also have some concerns about what lies ahead as political attention turns to the election in 2020. As candidates jockey for position, it is very likely that proposals presented may impact certain sectors or stocks more than others. We will look through all the rhetoric and remain focused on the fundamentals.

CONCLUSION

While we recognize that our style may not result in the sexiest portfolio or the highest-flying investment returns, our disciplined process is time-tested and proven over 50+ years of our history. We've managed through periods where the idea of any amount of portfolio protection seems foolish and weighs on results. Yet the past three quarters have provided the perfect opportunity to demonstrate the value of protecting capital when markets fall and participating when they rebound. Markets are always difficult to predict and rarely behave as expected, but one thing we at Stralem believe without question is that over time, "participation with protection" is the best way to achieve long term wealth creation. And this is why we too invest our money right alongside our clients.

Please feel free to contact us if you would like to receive a copy of our quarterly "West of the Hudson" letter 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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GIPS Disclosure

Large Cap Equity Strategy Composite Annual Disclosure Presentation											
Year End	Total Firm	Composite Assets		Annual Performance Results				3 Year Annualized Performance		3 Year Annualized Ex-Post Standard Deviation (based on monthly returns)	
	Assets (millions)	Assets (millions)	Number of Accounts	Composite		S&P 500	Composite Dispersion	Composite	S&P 500	Composite	S&P 500
				Gross	Net						
2018	292	181	19	-3.35%	-3.96%	-4.38%	0.34%	7.37%	9.27%	9.88%	10.80%
2017	685	545	34	17.37%	16.65%	21.83%	0.30%	9.65%	11.41%	9.18%	9.92%
2016	958	838	51	9.14%	8.46%	11.96%	0.40%	6.65%	8.87%	9.79%	10.59%
2015	1,129	955	64	2.91%	2.19%	1.38%	0.40%	12.95%	15.13%	10.33%	10.48%
2014	2,297	2,089	140	8.01%	7.27%	13.69%	0.30%	15.03%	20.41%	8.50%	8.98%
2013	3,522	3,352	246	29.65%	28.76%	32.39%	0.60%	15.32%	16.18%	10.29%	11.94%
2012	3,434	3,283	278	8.69%	7.95%	16.00%	0.60%	9.44%	10.87%	12.35%	15.09%
2011	3,695	3,584	296	8.83%	8.06%	2.11%	0.60%	13.58%	14.11%	15.73%	18.70%
2010	3,292	3,059	306	10.82%	10.06%	15.06%	0.50%	-0.76%	-2.85%	18.89%	22.16%
2009	2,514	2,292	265	21.49%	20.65%	26.46%	0.70%	0.06%	-5.63%	17.30%	19.91%
2008	1,803	1,649	206	-27.41%	-27.93	-37.00%	0.50%	-3.00%	-8.36%	13.36%	15.29%
2007	2,092	1,938	176	13.59%	12.74%	5.49%	0.40%	12.58%	8.62%	7.12%	7.79%
2006	1,631	1,472	152	10.68%	9.88%	15.79%	0.40%	13.83%	10.44%	6.62%	6.92%
2005	1,106	786	86	13.51%	11.85%	4.91%	0.70%	18.01%	14.39%	8.35%	9.17%
2004	644	387	38	17.42%	15.72%	10.88%	0.60%	5.15%	3.60%	11.30%	15.07%
2003	350	152	14	23.30%	21.50%	28.68%	1.70%	-0.02%	-4.05%	12.84%	18.33%
2002	234	76	6	-19.70%	-20.91	-22.06%	n/a	-4.95%	-14.55%	12.98%	18.81%
2001	267	93	≤5	0.95%	-0.54%	-11.93%	n/a	12.51%	-1.04%	12.87%	16.94%
2000	266	85	≤5	5.93%	4.38%	-9.10%	n/a	24.33%	12.26%	14.13%	17.66%
1999	326	33	≤5	33.16%	31.88%	21.04%	n/a	33.15%	27.56%	14.59%	16.76%
1998	288	25	≤5	36.23%	34.91%	28.58%	n/a	29.85%	28.23%	16.84%	16.24%
1997	260	29	≤5	30.13%	28.86%	33.36%	n/a	30.55%	31.15%	14.83%	11.30%
1996	230	24	≤5	23.51%	22.31%	22.96%	n/a	22.82%	19.68%	14.10%	9.72%
1995	121	23	≤5	38.42%	37.08%	37.58%	n/a	15.38%	15.34%	11.00%	8.34%
1994	104	16	≤5	8.37%	7.30%	1.32%	n/a	5.17%	6.27%	10.11%	8.06
1993	106	14	≤5	2.40%	1.40%	10.08%	n/a				
1992	80	12	≤5	4.82%	3.79%	7.62%	n/a				

Performance Notes

Stralem & Company ("Stralem") is an independent, SEC registered investment adviser established in 1966. Registration does not imply a certain level of skill or training. 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®) and has prepared and presented this report in compliance with the GIPS standards. Stralem has been independently verified for the periods January 1, 1992 through December 31, 2018. 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 Equity Strategy Composite has been examined for the periods January 1, 1992 through December 31, 2018. The verification and performance examination reports are available upon request.

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

The firm maintains a complete list and description of composites, which is available upon request. To receive a complete list and description of Stralem's composites contact Stralem at 212-888-8123.

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.

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 less than 0.5% 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. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. The investment management fee schedule is as follows: 0.80% on the first $5 million, 0.70% on the next $20 million, and 0.50% on the remainder. Clients may have different fee arrangements than the above fee schedule with fees that are higher or lower depending on when the contract was entered into and the services provided. Accounts that require additional resources for administration, management and servicing may be charged an advisory fee of up to 1.25% per annum. Upon request, Stralem will also provide its clients with a fulcrum fee arrangement, which includes a lower, fixed advisory fee plus a performance based fee. Fulcrum fees arrangements may vary among clients.

Prior to 1997, carve-outs are included in this composite and performance reflects required total segment plus cash returns. All cash not directly related to fixed income is included in the equity carve-out. 100% of composite assets were comprised of carve-out segments prior to 1997. There are no carve-out segments in the composite subsequent to 1996.

Definitions:

Standard Deviation is a measure of absolute volatility of returns.