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PORTFOLIO MANAGER COMMENTARY
Third Quarter 2019

STRALEM LARGE CAP EQUITY STRATEGY

SUMMARY

- After the best first-half return for the S&P 500 since 1997 (+18.5%), the third quarter began with the market just 1.7% below its all-time high but concealing the fact that over the last year the market only returned 4.3% as investors tried to reconcile the dueling narratives of a strong consumer spending buoyed by job and wage growth against a manufacturing recession with the potential to widening cracks in the U.S. economy.

- In the third quarter, Stralem's Large Cap Equity Strategy ("LCES") returned -0.30% gross of fees, versus the S&P 500 index return of 1.70%, for a relative underperformance of -2.00%. While the quarterly underperformance is a little surprising, the portfolio remains ahead of the benchmark through the record volatility of the past year, +4.78% vs +4.25%, once again highlighting the value of Stralem's Participation with Protection philosophy.

- Attribution analysis would indicate that the primary source of underperformance in the third quarter was the Information Technology and Healthcare sectors; however, there were also a few stock specific issues that drove the quarterly performance.

- Analyzing the portfolio in Stralem terms, for Q3 the New Industries and New Products categories within the Up-Market (-0.84% and -0.69% respectively) detracted from performance (Adobe, Cisco and Alexion), while the Dominant Companies category within the Up-Market (+0.04%) and the High Yield category within the Down-Market (+0.02%) provided the greatest boost to relative performance.

	Annualized Returns (9/30/19)							
	YTD 9/30/19	1 YR	3 YR	5 YR	10 YR	15 YR	20 YR	10 YR Std. Dev.
Stralem Composite (Gross)	**16.4%**	**4.8%**	**10.1%**	**8.8%**	**11.3%**	**9.2%**	**8.3%**	11.2%
S&P 500	20.6%	4.3%	13.4%	10.8%	13.2%	9.0%	6.3%	12.5%
Difference	***-4.2%***	***0.5%***	***-3.3%***	***-2.0%***	***-1.9%***	***0.2%***	***2.0%***	*-1.3%*
Stralem Composite (Net)	15.8%	4.1%	9.4%	8.2%	10.6%	8.4%	7.3%	11.2%

MARKET COMMENTARY

After the best first-half return for the S&P 500 since 1997 (+18.5%), the third quarter began with the market just 1.7% below its all-time high but concealing the fact that over the last year the market only returned 4.3% as investors tried to reconcile the dueling narratives of a strong consumer spending buoyed by job and wage growth against a manufacturing recession with the potential to widen cracks in the U.S. economy. Many investors also worry that the back-and-forth rhetoric between President Trump and China, as well as the Federal Reserve, is increasing pressure on an economy they already fear is beginning to slow down.

The U.S. economy, as measured by GDP growth, is primarily driven by consumer spending, which makes up 70% of GDP. The consumer remains healthy as employers continue to hire at a healthy clip (unemployment reached a 50-year low of 3.5% in Q3) and wage growth exceeded 3%. This drove Consumer Confidence in July to the second highest level (135.8) since the year 2000 driving robust consumption and supporting moderate economic growth in the first half of the year. However, the 2017 tax cuts are no longer driving year-over-year growth and GDP slowed to 2.0% in Q2 and 1.9% in Q3.

The headwind to GDP growth has been the deceleration in business investment and manufacturing (which makes up 11% of GDP) – clearly attributable to the lack of certainty and direction of trade talks with China. Without a settlement, almost all Chinese exports will be subject to a 25% tariff by mid-2020, and lower interest rates will not provide a meaningful offset. The existing tariffs are filtering their way through the U.S. economy and U.S. factory activity contracted for the first time in several years. The ISM Manufacturing Index fell below 50 in September, the lowest level since 2009, and an indication that manufacturing is decelerating and likely in a recession. Clearly a drag on GDP, the real question remains whether this deceleration will result in excessive job losses and ultimately a recession – which is difficult to predict at this point.

While the U.S. remains relatively advantaged economically, Europe, which is also dealing with the never-ending Brexit saga, recently had its GDP forecast for 2019 cut from 1.7% to 1.1%. Nearly $9T of European sovereign debt is now at a negative yield (the German 10Yr hit a record low of -0.46%) and the Euro fell to a two-year low of 1.10 vs the US dollar. The Emerging Markets, led by China, are also feeling the pain of tariff and trade wars and the strong US dollar. China's GDP growth in Q3 was 6%, a level that appears to be robust, but it is the lowest level in over 30 years and a major contributor to the IMF lowering its global 2019 GDP forecast to 3.2%, down 0.10%.

The global slowdown is also impacting margins and earnings at the largest U.S. companies that must not only work around the impacts of the trade war, but also deal with the slowing growth in many of the Emerging Market countries where they operate. While S&P 500 operating margins have been slowly receding from the peak in Q318, the strong U.S. dollar is now impacting revenue growth as well. While Q3 earnings are just starting to be reported, the expectation is that the S&P 500 will experience negative year-over-year earnings growth in Q3 which will likely result in heightened concern about 2020 earnings and the prospect of an earnings recession.

All this data must be put into the context of where we are in the economic and market cycles. As the market flirts with new all-time highs more than 10 years into a bull market, 2019 has seen a rotation into more defensive, dividend paying securities as many investors want to retain their equity exposure, but perhaps in a lower risk company. Other investors have deemed the risks too high and rotated out of equities and into fixed income, driving bond prices up, and interest rates to record lows. The 10Yr treasury fell from ~3.2% in October 2018 to 1.6% in September 2019! While it is never easy to fully assess or interpret market behavior, the message seems rather clear that investors are cautious and uncertain about the macroeconomic environment and they are investing accordingly.

PORTFOLIO PERFORMANCE & COMMENTARY

In the third quarter, Stralem's Large Cap Equity Strategy ("LCES") returned -0.30% gross of fees, versus the S&P 500 index return of 1.70%, for a relative underperformance of -2.00%. While the quarterly underperformance is a little surprising, the portfolio remains ahead of the benchmark through the record volatility of the past year, +4.78% vs +4.25%, once again highlighting the value of Stralem's Participation with Protection philosophy.

Attribution analysis would indicate that the primary source of underperformance in the third quarter were the Information Technology and Healthcare sectors, however, there were also a few stock specific issues that drove the quarterly performance.

In Technology, Apple, a stock that is not owned in the portfolio but represents a large weight (over 4%) in the S&P 500, had a strong quarter with the release of its new iPhone 11 and their launch of some new services. The stock was +13.6% and not owning it cost the portfolio 41bps. At the same time, weakness in two companies that have been stellar performers, Adobe (-6.3%) and Cisco Systems (-9.2%), caused the drag in the sector. There was nothing fundamentally alarming about either Adobe or Cisco that cause us concern and our investment theses remain intact.

Healthcare represents the largest sector overweight in the portfolio at 10.8% spread across nine securities, and it was the second worst performing group in Q3, likely due to the increased political rhetoric around Medicare-for-All, the elimination of private insurance, and caps on pharmaceutical pricing. We are in an intense political environment which will likely only get worse as we approach the 2020 elections and volatility in Healthcare should be expected. The stock that was affected the most, Alexion Pharmaceuticals, is an orphan-drug company that represents one of our smallest market cap holdings, and thus it is a high active share name. Alexion fell over 25% in the quarter based on the political rhetoric around expensive drugs (orphan drugs affect few patients, but in order to foster research, are allowed to be high priced) as well as a generic challenge to its primary drug, Soliris, which is responsible for 70% of revenue. The patent challenge was an attempt to reduce the exclusivity from 2025 to 2023, which shouldn't impact Alexion too much as they are already moving patients to a new-and-improved version that has longer patent protection. We remain confident in the fundamentals and the management team's ability to execute.

The other drags in the quarter were from FedEx (-11.3%) and EOG Resources (-19.8%). FedEx is directly in the cross-hairs of the tariff dispute with China as the company relies on global trade. As exports from China into Europe and the U.S. slow, FedEx is forced to adjust its routes and capacity, which impacts revenue and cost. Fortunately, the continued growth in e-commerce benefits FedEx freight in the U.S. which has been the bright spot, but the International Priority is a high-margin business for FedEx and a slowdown in global trade can have a significant impact. We believe that the eventual resolution of the trade dispute will serve as a catalyst and we continue to believe in the long-term outlook for the company.

EOG Resources is the lowest cost shale producer of oil and gas in the country. While crude oil prices in the quarter were relatively stable at $55-$60, the slowdown in manufacturing coupled with the lack of oil exports due to trade issues, led to weakness across the Energy sector. EOG was down 19.8% and represented the second largest drag on performance after Alexion. Despite economic weakness, we believe that EOG's low cost positioning should serve it well even if oil prices remain at current levels or go lower. This cost advantaged position is critical component of the investment thesis.

Analyzing the portfolio in Stralem terms, for Q3 the New Industries and New Products categories within the Up-Market (-0.84% and -0.69% respectively) detracted from performance (Adobe, Cisco and Alexion), while the Dominant Companies category within the Up-Market (+0.04%) and the High Yield category within the Down-Market (+0.02%) provided the greatest boost to relative performance.

PORTFOLIO ACTIVITY & OUTLOOK

There was no change in the portfolio for the quarter.

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 cutting rates and buying bonds (Quantitative Easing), and the U.S. economy stable at ~2% GDP growth, we think investors will apply more focus to the trade war with China and its impact on global growth while watching the manufacturing sector for spillover into consumer spending and confidence. 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 year has 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.