STRALEM
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PORTFOLIO MANAGER COMMENTARY
Third Quarter 2018

STRALEM LARGE CAP EQUITY STRATEGY

SUMMARY

- *In Q3 of 2018, Stralem's Large Cap Equity Strategy ("LCES") returned 6.83% gross of fees, versus the S&P 500 index return of 7.71%, for a relative underperformance of 88 basis points.*

- *After a down quarter in Q1 (only the 2nd down quarter in 5 years), the S&P 500 index produced a total return of -0.38% through April of 2018. But the market regained its footing in May (+2.4%) and then vaulted 7.71% in Q3 – the 9th highest quarterly return since 2009 and the best quarter since 2013. The S&P 500 ended the quarter +10.56% YTD, just slightly off another all-time high.*

- *Much, if not all, of the strong stock performance was directly attributable to the very strong Q2 corporate earnings results that were largely driven by the full implementation of the Tax Cuts and Jobs Act (TCJA). Second quarter margins for the S&P 500 reached a record of 11.55% and drove year-over-year earnings growth well above 20% -- almost unheard-of in the 10th year of an incredibly strong bull market. In addition, margins are expected to accelerate to nearly 12% in Q3 with earnings growth expected to exceed 26%! As we look out to 2019, the strong growth from the tax cuts will not last and the growth rates are expected to slow down.*

- *However, despite the boost to corporate earnings investors are being forced to grapple with the lengthy bull market, rising interest rates, increasing inflation, and threats of additional tariffs and trade wars. Not to mention an impending election that promises to bring about more divisiveness and political rancor as both sides rally around the swing candidates that will determine who controls the House and Senate.*

- *The third quarter relative underperformance of the LCES was largely attributable to owning a little too much of the defensive, high yield sector of Utilities, and not enough of the best performing sectors Information Technology and Consumer Discretionary. Like the previous few quarters, not owning Amazon and Apple hurt our performance, this quarter it cost us 89 basis points, as Amazon was +17.8% and Apple was +22.4%. Strong stock selection in Healthcare, such as Pfizer +22.5% and Abbott Labs +20.8% helped offset some of the underperformance as did Oracle +17.5% and Visa +13.5% within Information Technology. Please see below in* ***PORTFOLIO ATTRIBUTION & ACTIVITY*** *section for discussion of detractors from LCES performance. While the rhetoric around trade wars and tariffs, the strong U.S. dollar, and inflation that is creeping higher remain concerns for global large-cap stocks, the fundamentals of the portfolio stocks remain strong and we remain confident these firms will navigate the volatility and continue to perform well.*

- *Stralem continues to focus on large-cap, high-quality companies with solid balance sheets, high cash flows, exposure to favorable secular growth trends, and companies that have recourse to abundant operational and strategic levers that enable them to meet their growth targets.*

- *Volatility and the need for downside protection are likely to increase as two seminal shifts in the investment environment are underway: the Fed and global central banks are finally tightening monetary policy, and trade protectionism is shifting into high gear. Stralem will continue to identify and invest in the most exciting thematic secular growth opportunities to participate in up markets, but we will also continue to maintain the down-market component of the portfolio to provide protection, if and when, the market falls.*

	Annualized Returns (9/30/18)								
	QTD 9/30/18	YTD 9/30/18	1 YR	3 YR	5 YR	10 YR	15 YR	20 YR	10 YR Std. Dev.
Stralem Composite (Gross)	**6.8%**	**7.4%**	**11.2%**	**14.2%**	**10.9%**	**10.0%**	**10.1%**	**9.7%**	12.6%
S&P 500	7.7%	10.6%	17.9%	17.3%	14.0%	12.0%	9.7%	7.4%	14.3%
Difference	***-0.9%***	***-3.2%***	***-6.8%***	***-3.1%***	***-3.1%***	***-2.0%***	***0.4%***	***2.3%***	*-1.7%*
Stralem Composite (Net)	6.6%	6.8%	10.4%	13.5%	10.2%	9.2%	9.2%	8.7%	12.6%

MARKET COMMENTARY

After a down quarter in Q1 (only the 2nd down quarter in 5 years), the S&P 500 index produced a total return of -0.38% through April of 2018. But the market regained its footing in May (+2.4%) and then vaulted 7.71% in Q3 – the 9th highest quarterly return since 2009 and the best quarter since 2013. The S&P 500 ended the quarter +10.56% YTD, just slightly off another all-time high.

Much, if not all, of the strong stock performance was directly attributable to the very strong Q2 corporate earnings results that were largely driven by the full implementation of the Tax Cuts and Jobs Act (TCJA). Second quarter sales for the S&P 500 were up 11.2%, margins reached a record of 11.55%, and earnings growth exceeded 20% -- almost unheard-of in the 10th year of an incredibly strong bull market. Even the Wall Street analysts struggled to keep up with the growth as 80% of S&P 500 companies beat their Q2 expected profits – a level that has never been seen before.

While Q2 clearly represented a very strong margin and earnings result, Q3 is expected to be even better! S&P 500 margins are expected to accelerate to a new record high, while earnings growth is expected to exceed 26%! However, despite the widespread boost to corporate margins and earnings, investors are being forced to grapple with the lengthy bull market (nearly 10 years old), rising interest rates, increasing inflation, and threats of additional tariffs and trade wars. As we look out to 2019, the impact of the tax cuts on growth will be reduced and the strong earnings growth rates of 2018 are expected to slow dramatically.

From a macro perspective, GDP growth in Q2 was very strong at 4.2% and the U.S. appears to be separating itself from the other major developed economies of Japan (+3.0% GDP) and the Eurozone (+1.8% GDP). However, as the U.S. reaches full employment, the Federal Reserve continues to raise rates and unwind its balance sheet, inflation creeps higher, and the imposed tariffs start to bite, cost headwinds continue to mount. These headwinds will act as a brake on economic growth and it's the reason the current consensus has U.S. GDP growth peaking in Q218 and then slowly declining to 2% in 2020.

On the global trade front, while the "new NAFTA" agreement was put in place, the trade war rhetoric and "tit-for-tat" tariff measures with China have quickly evolved into what is looking more like an all-out, protracted trade war. Given the rapid escalation and increasing animosity between the parties involved, there may be little room for any material de-escalation. It is increasingly likely therefore that a trade war brings about uncertainty, a drag on global economic growth, an increase in inflation and the messy restructuring of global corporate supply chains. Given where we are in the economic and market cycles, this type of flare-up has the potential to ripple and escalate well beyond the borders of the U.S. and China – and while President Trump likes to say that trade wars can be won, we most certainly do not share his optimism.

Lastly, as the weather cools and we move into Fall, the U.S. is facing a critical mid-term election that will have a significant impact on the future direction of our country. There is already little doubt this election will be more divisive and include more rancor, rhetoric and mistruths than ever before. With control of Congress as well as many swing state legislatures in play, it promises to be suspenseful and volatile, two conditions that do not mix well with equity markets results.

PORTFOLIO PERFORMANCE & COMMENTARY

During the third quarter of 2018, the Stralem Large Cap Equity Strategy ("LCES") returned 6.83% gross of fees, versus the S&P 500 index which returned 7.71%, for a relative underperformance of 88 bps.

The third quarter relative underperformance of the LCES was largely attributable to owning a little too much of the defensive, high-yield sector of Utilities, and not enough of the higher growth sectors, Information Technology and Consumer Discretionary, which were the best performers. Like the previous few quarters, not owning Amazon and Apple hurt our performance, this quarter it cost us 89 basis points collectively, as Amazon was +17.8% and Apple was +22.4%. Strong stock selection in Healthcare, such as Pfizer +22.5% and Abbott Labs +20.8% helped offset some of the underperformance as did Technology holdings Oracle +17.5% and Visa +13.5%. Please see below in **PORTFOLIO ATTRIBUTION & ACTIVITY** section for discussion of detractors from LCES performance. While the rhetoric around trade wars and tariffs, the strong U.S. dollar, and inflation that is creeping higher remain concerns for global large-cap stocks, the fundamentals of the portfolio stocks remain strong and we remain confident these firms will navigate the volatility and continue to perform well.

As always, Stralem continues to focus on large-cap, high-quality companies with solid balance sheets, high cash flows, exposure to favorable secular growth trends, and companies that dispose of abundant operational and strategic levers that enable them to meet their growth targets. In addition, we believe our mantra of "participation with protection" is among the most effective ways to build and sustain long-term wealth. In recent years, in what has effectively been a very strong one-way market with exceptionally low volatility, that protection element has appeared to many investors to have lost its relevance. However, despite the fact that the frenetic barrage of negative policy, political and geopolitical headlines has yet to seriously derail this bull market (entering its 10th year), two seminal shifts are underway which will heighten risk and volatility going forward: global central banks are finally tightening monetary policy, and trade protectionism is shifting into high gear. As the market continues to digest these risks, and volatility and downside moves will likely be more prominent going forward. Therefore, we will continue to maintain a Down-Market component in the portfolio for protection if and when the market falls.

PORTFOLIO ATTRIBUTION & ACTIVITY

While the portfolio has been stung by the Amazon and Apple performance before, in Q3 it was responsible for nearly all the negative attribution (-88bps combined) as the rest of the portfolio performed quite well. Outside of Amazon and Apple, the negative attribution came from Aptiv PLC (-51bps), Facebook (-27bps), DowDupont (-25bps), and Bank of New York (-25bps).

Aptiv has continued to produce strong results as it sells the electronic platform and architecture that enables all the “smart car” features found in new cars today. As the world slowly works its way to fully autonomous driving (level 5), the architecture of sensors and cameras and safety features must be built. Aptiv continues to win share as automobile platforms install more basic functions (level 2 and level 3). Unfortunately, as interest rates rise, the number of automobiles sold generally declines and buyers also trade down from function heavy cars to function lighter cars and that impacts Aptiv. We are still strong believers in the company’s future and we are willing to tolerate some near-term volatility.

After producing a 53.4% return in 2017, 2018 has been less kind to Facebook. In addition to all the issues around Facebook violating privacy rights by selling personal data to third parties, the company has been forced to invest a lot more capital into compliance and monitoring after it was revealed that bad actors (namely the Russians) were using the platform to help spread misinformation. This has led to several investigations in the U.S. and Europe to better understand Facebook’s role and responsibility as it pertains to the First Amendment. The stock was down slightly more than 15% in Q3, but despite its issues it remains the largest online advertising platform and the demand of tapping into its enormous network cannot be overstated.

DowDupont was also a very strong performer in 2017 returning 27.9%, but 2018 has represented a far larger challenge for several reasons. The stock was only down 1.94% in Q3, but chemicals are in the crosshairs of the trade war with China and in addition to imposing tariffs on certain chemicals and plastics, DowDupont has a large agricultural business selling seeds and pesticides that is also negatively affected by China’s decision to apply high tariffs to imported soybeans and other agricultural products. These tariffs mean less demand for agricultural products, less growing and far lower prices – all negatives for DowDupont. DowDupont is also in the process of breaking the company up into separate companies which should serve as a future catalyst. Despite the headwind DowDupont is currently facing, we believe its fundamentals are strong and will result in better earnings down the road.

In addition to its primarily fee-based stable cash flow, the custody-centric Bank of New York has a new management team led by former Jamie Dimon protégé and Visa Inc CEO, Charlie Scharf. Mr. Scharf was a major attraction. He articulated the need to re-align Bank of New York’s cost basis so that more of the cash flow would flow to profit and while it has been successful, the progress has been slower than expected and investors have noticed. We remain firm believers in Bank of New York’s underlying competitive advantages and believe Mr Scharf will deliver as promised.

On the positive side of the ledger, the portfolio’s performance was driven by the Healthcare sector. It was the best performing S&P 500 sector (+14.3%) and Pfizer (+22.5%) and Abbott Labs (+20.8%) contributed significantly to the portfolio’s performance. In addition to having a lot of offshore cash to re-allocate back to the business, Pfizer reported positive developments with drugs that are more broadly across its drug base. Abbott Labs received excellent results from its clinical work with MitraClip, the firm’s device for leaky heart valves, and FreeStyle Libre, its self-monitoring blood glucose system for patients with diabetes.

After the strong performance in Healthcare, the next best performing sector was Information Technology which was +9.1% for the quarter, and interestingly, the performance spread beyond just the FANG+M (Facebook, Amazon, Netflix, Google + Microsoft) stocks. While Apple, Amazon, and Microsoft (+16.4%) remained strong, Facebook was -15.4% and Netflix was -4.4% indicating to us that while these widely held stocks are still loved, investors will not tolerate less than stellar results.

From a GICS industry sector attribution standpoint in Q3, Consumer Discretionary (-61bps), Information Technology (-43bps), and Utilities (-25bps) detracted the most from LCES performance while Healthcare (+84bps), Real Estate (+19bps) and Consumer Staples (+9bps) contributed the most. In Stralem terms, for

Q3 the New Industries category within the Up-Market (-67bps) and the Low Price to Cash Flow category within the Down-Market (-54bps) detracted the most from performance, while the New Products category within the Up-Market (+50bps) provided the greatest boost to relative performance.

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 like this where the idea of any amount of portfolio protection seems foolish and weighs on results. Yet like any type of insurance, it's a payment one hates to make until something unexpected happens and one's prudence is rewarded. Markets are 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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Note:
Portfolio securities discussed in this commentary should not be considered a recommendation to purchase or sell a particular security. There is no assurance that securities discussed in this commentary remain in the LCES portfolio. See performance notes included in this commentary.

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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 Gross	Composite Net	S&P 500	Composite Dispersion	Composite	S&P 500	Composite	S&P 500
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%	20.14%	8.50%	8.98%
2013	3,522	33,52	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%	16.73%	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	1,983	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	17.41%	16.72%	10.88%	0.60%	5.15%	3.60%	11.30%	15.07%
2003	350	152	14	23.30%	21.50%	28.68%	1.70%	-0.20%	-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	12.51%	-1.04%	12.87%	16.94%
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%	16.834%	16.24%
1996	230	24	≤5	23.15%	22.31%	22.96%	n/a	22.82%	19.68%	14.10%	9.27%
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. 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, 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 Equity Strategy Composite has been examined for the periods January 1, 1992 through December 31, 2017. 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 approximately 2% 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.