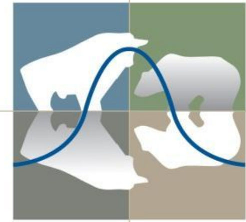


PORTFOLIO MANAGER COMMENTARY
Fourth Quarter and Full Year 2017

STRALEM LARGE CAP EQUITY STRATEGY

SUMMARY

- *In Q4 of 2017, Stralem's Large Cap Equity Strategy ("LCES") returned +3.53% gross of fees, versus the S&P 500 index return of +6.64%, driving the shortfall in relative performance for the full year which saw the LCES +17.37% versus the index which was up +21.83%.*

- *The shortfall for the full year was driven by both allocation and stock selection.*
  - *In this extraordinary up-market year with an absence of volatility and in which the S&P 500 experienced no down months in 2017 (and only one down quarter in the past 5 years), the protective, down-market portion of the LCES portfolio was left predictably untapped and caused a drag on performance. As can be expected, the price of protection is the possibility of trailing an advancing market such as this year's.*
  - *The stock selection shortfall for the full year was driven by:*
    - *Not owning two of the 5 stocks that drove 23% percent of the market's return: Apple and Amazon (while owning what are perceived as the latter's very victims in Kraft-Heinz and Mondelez)*
    - *Owning Johnson Controls, sold late in the year due to operational impairment and Schlumberger, sold in Q3 due to its outsize exposure to international deep water drilling in the face of U.S. policy to Russia and sustained OPEC cutbacks*

- *LCES company earnings continued to provide high-quality growth in the calendar Q3 corporate earnings season, posting top-line growth of 8.9% and earnings growth of 15.3%, as compared to 5.3% top-line growth and 7.1% earnings growth for the S&P 500 index. Stralem continues to focus on large-cap, well-known 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 the Fed continues to tighten and the benefits of the tax deal become recognized for the "one-time" earnings boost they are rather than a hoped-for sustainable driver of U.S. growth. Investor confidence and consumer spending may soon be burdened by increasing interest rates, the regressive nature of the tax cuts, recognition that fiscal-policy maneuverability has been constrained by the increase in federal deficits, and lack of attention to structural problems like low productivity—not to mention geopolitical and U.S. political risks.*

		Annualized Returns (12/31/17)							
	YTD 12/31/17	1 YR	2 YR	3 YR	5 YR	10 YR	15 YR	20 YR	10 YR Std. Dev.
Stralem Composite (Gross)	17.4%	17.4%	13.2%	9.7%	13.0%	7.9%	10.4%	10.1%	13.0%
S&P 500	21.8%	21.8%	16.8%	11.4%	15.8%	8.5%	9.9%	7.2%	15.0%
Difference	*-4.4%*	*-4.4%*	*-3.6%*	*-1.7%*	*-2.8%*	*-0.6%*	*0.5%*	*2.9%*	*-2.0%*
Stralem Composite (Net)	16.7%	16.7%	12.5%	8.9%	12.3%	7.1%	9.5%	9.1%	13.0%

PORTFOLIO COMMENTARY

During the fourth quarter of 2017, the Stralem Large Cap Equity Strategy (“LCES”) returned +3.53% gross of fees, versus the S&P 500 index which returned +6.64%, bringing the performance for the full year to +17.37% for the LCES versus +21.83% for the index. In an extraordinary up-market year with a veritable absence of volatility, the LCES portfolio structure captured nearly 80% of the market’s upside. The 32% allocation to “Down-Market” companies, designed to preserve capital during down markets, was not fully employed given the absence of down markets and volatility, and therefore this LCES portfolio component acted as a drag on portfolio relative performance during the year. Interestingly, the S&P 500 experienced no down months in 2017 and only one down quarter in the past 5 years making it a challenge for LCES to take advantage of our down-market exposure.

The fourth quarter relative performance gap for the LCES was attributable to another leg up for the “Trump Trade”, as expectations for a tax-cut deal grew and a deal came to fruition at the end of the year. More “cyclical” sectors in which the LCES is underweight relative to the broad market benefitted from the perceived future boost to economic growth, particularly Consumer Discretionary and Financials. However more “conservative” sectors, in which the LCES is overweight relative to the broad market, namely Utilities and Health Care, did not fare as well. Stralem believes that the benefits of the tax deal are primarily a “one-off” event for investors, as companies boost their 2018 guidance on the lower corporate tax rate, repatriate foreign earnings and boost shareholder payouts. However, a sustained growth boost to the U.S. economy from the tax legislation is very much in doubt, as it did not address structural problems like low productivity, the resulting increase in the federal government deficits will restrict fiscal-policy maneuverability, and as the regressive nature of the tax cuts becomes more evident, it may weigh on consumer confidence and spending going forward.

As always, Stralem continues to focus on large-cap, well-known 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 at Stralem believe our mantra “participation with protection” is among the most effective ways to build and sustain wealth. At present, the protection element does not appear relevant. However, given the state of the equity market and the overall underpricing of material risks, we firmly believe it is more important than ever and we remain steadfast in our conviction. As we enter into 2018, with geopolitical, political and policy risks looming large, we firmly believe that having a portion of the portfolio allocated to the Down Market will serve us well when market volatility inevitably resurfaces. However, we also recognize that trying to speculate as to when or what could be the catalyst that derails the market’s almost-9-year bull run, are endeavors fraught with peril. So while we also continuously try to identify and invest in the most exciting secular growth opportunities that will provide participation in strong markets we will nonetheless continue to maintain a “Down-Market” component in the portfolio for protection if and when the market worsens.

MARKET COMMENTARY

The U.S. economy is currently showing signs of sustained growth, with Real GDP growth rising above the 2.1% average of recent years, and exceeding +3.0% for two quarters in a row in Q2 (+3.1%) and Q3 (+3.2%). Business spending is starting to contribute to GDP growth again, with Industrial Production growing at +3.4%, and Durable Goods Orders (ex-Transportation) growing at +7.0%. Wages are growing again at a rate of +2.5% according to the Bureau of Labor Statistics and the University of Michigan Consumer Sentiment Index remains close to its highest levels in 10 years. With the headline unemployment rate at its lowest point in 17 years, the labor market could well be tightening, which might bring inflationary pressure going forward. But for now, the Core PCE Price Index is increasing at a very tame +1.5%, and U.S. Nonfarm Productivity may even lend a hand if the Q3 uptick to +3.0% portends an increase from the weak numbers in recent years, as capital spending increases on equipment and software. The ex-U.S. economic growth backdrop remains supportive, with major economies and the emerging markets experiencing a period of steady, synchronized growth. Eurozone GDP grew at +2.6% in Q3, Japan grew +2.5%, and China grew +6.8%.

Calendar Q3 corporate earnings were strong, with S&P 500 companies collectively growing their sales by +5.3%, and earnings by +7.1%. U.S. large-cap companies were able once again to grow their bottom lines at a greater clip than their top lines, as they continue to dispose of levers to achieve operational efficiencies and increase margins (small- and mid-cap companies did not have as much success increasing margins). S&P 500 companies are widely expected to increase their 2018 guidance as the Q4 earnings season kicks off due to the passage of the year-end tax deal that cuts the corporate tax rate from 35% to 21%.

While the economic growth and corporate earnings growth backdrops are unquestionably positive, stock market valuations are looking full, and the lack of volatility in the markets is indicative of excessive complacency among investors. From its post-financial crisis low on March 9, 2009, through year end 2017, the S&P 500 index returned an incredible +376%, or an annual equivalent return of +19.4% (in just under 9 years). Stock valuations have also risen over that period, and at year end 2017, the trailing 12-month P/E of the S&P 500 index was 22.4x as compared to a long-term median of 16.9x. The cyclically-adjusted Shiller CAPE P/E stands at an incredible 32.4x, which going back to 1881, is a level that has been exceeded only twice – prior to the 1929 market crash, and during the 2000 dotcom bubble. And it is not just equities that are sporting full valuations – it is really financial and hard assets across the board. The average spread of high-yield corporate debt above comparable Treasury bond yields is 339 basis points, compared to a 25-year average of 516 basis points. And of course, the poster-child of speculative investments, bitcoin, appreciated some +1,503% over the course of 2017, which is indicative of the froth present across financial markets.

In addition to full valuations, financial markets have recently been characterized by historically-low levels of volatility, which would indicate that investors may well be underpricing risks present in the current investment environment. The VIX options-implied volatility index averaged an extremely-low 10.3 during Q4, which is well below the 19.4 average since 1990 for the "fear index". Similarly, the MOVE index (Merrill Lynch Option Volatility Estimate Index), the bond-market equivalent of the VIX, averaged 49.4 in Q4, also well below the 95.4 average since 1990. These low levels seem incongruous with the multiplicity of potential catalysts that could conceivably derail the rally in equities and assets across the board. Thus far, markets have been resilient, and investor fear has not taken root. Potential catalysts however exist on the geopolitical front, where the possibility of a nuclear conflict is at the forefront with North Korea steadily improving its missile technology and range, and Kim Jong-Un and President Trump taunting each other on a regular basis. Iran's profile as a hotspot is also increasing as the Trump administration seeks a do-over of the U.S.-Iran nuclear deal, while internal strife and protests look to be destabilizing the country.

On the political front, the investigation by special counsel Robert Mueller into Russian meddling in the 2016 presidential election is intensifying and could conceivably come to a head with the president himself. Policy risk is also prominent, as the increase in federal government deficits from the year-end tax deal lessens the government's fiscal maneuverability, and of course with the reversal in the direction of monetary policy by the Federal Reserve, having ended quantitative easing and now proceeding with rate increases (four 25 basis-point increases so far). The European Central Bank and the Bank of Japan will at some point follow the Fed's lead, reversing the liquidity tide that has supported all manner of assets for nine years.

PORTFOLIO PERFORMANCE & ACTIVITY

With the completion of the calendar Q3 earnings season, LCES companies have performed well, collectively posting top-line growth of 8.9% and earnings growth of 15.3%, as compared to 5.3% top-line growth and 7.1% earnings growth for the S&P 500 index.

Individual relative performance (gross of fees) drivers during Q4 did not reflect this obvious quality gap. Cumulatively, on the downside, **PPL Corp** (-17.5%), **Celgene** (-28.3%) and **Merck** (-11.4%), together accounted for 170 basis points of *negative* attribution -- 55% of the total relative performance. While upside capture was present – including **Adobe Systems** (+17.5%), **Lowe's** (+16.9%) and **United Health** (+12.8%) -- accounting for 75 basis points of positive attribution, the market's positioning preference was clearly not in our favor.

PPL Corp (High Yield category within the Down Market sector) experienced several headwinds during the quarter. Utilities were the worst-performing broad-industry sector during the quarter, and PPL's regulated electricity distribution operations in the U.K. have caused recurring concerns over the company's British Pound exposure, as the U.K.'s "Brexit" negotiations with the European Union continue. Lastly, consumer advocates in the U.K. have been agitating about electricity and gas bill inflation, which is creating concern over any potential exposure that PPL may have on that front. Despite the quarter's challenges, we remain confident in PPL as the company continues to invest in and grow its regulated rate base, and pays a 5% dividend with a manageable 70% payout ratio. As far as PPL's U.K. business, it is just 2 years into an 8-year price-control regime, its '18 and '19 British Pound exposures are fully hedged, and the latest consumer advocate criticism has really been focused on electricity suppliers, and not distributors like PPL.

Celgene (New Products category within the Up Market sector) also had a tough Q4 due to two adverse events. The company unexpectedly stopped a late-stage trial of a pipeline candidate in Crohn's disease, and a week later during its earnings report, it cut its full-year sales guidance for auto-immune drug *Otezla*. Given both of these events, the company in turn lowered its 2020 guidance. Despite these setbacks, Celgene's guidance still implies a +14.5% CAGR sales growth and +19.5% CAGR EPS growth through 2020 – growth rates that are still the envy of large-cap biopharmaceutical companies. During Q4, Merck also fell victim to the vagaries of clinical trial turbulence, delaying the readout of a late-stage trial of its immuno-oncology blockbuster drug *Keytruda* in combination with chemotherapy in first-line lung cancer. The company also withdrew its European application for a *Keytruda*-chemo combination therapy in first-line lung cancer. Despite these delays, we remain confident that Merck's *Keytruda* will defend its dominant market share in first-line lung cancer, and that the multiple clinical trials underway in multiple cancer types (monotherapy and combination therapy) will result in approval for use in additional indications.

On the positive side of the ledger, Adobe Systems (New Industries category within the Up Market sector) benefitted from an excellent fiscal Q4 earnings report, as the company beat handily on the top and bottom lines, growing sales +25% and EPS +40%. After the company's successful transition to a cloud-based software subscription model, Adobe continues to see strong demand for its *Creative Cloud* (digital

media) offering, as well as its *Experience Cloud* (digital marketing) offering. Adobe's partnership with Microsoft integrating *Adobe Experience Cloud* with Microsoft's SaaS CRM offering *Dynamics 365*, is starting to ramp up and broaden demand for Adobe's digital marketing offerings among enterprise marketers. For its part, home-improvement retailer Lowe's had a solid gain during the quarter as U.S. job market gains, disposable income growth, strong home sales and continued low mortgage rates continue to lend support to increasing home prices as well as spending on home improvement.

UnitedHealth Group also had a solid gain during the quarter as it continued to show its mettle as the best-in-breed managed health care company, beating analysts' consensus EPS estimate for the 35th quarter in a row. Both UnitedHealth's regulated operations (UnitedHealthcare) and non-regulated operations (Optum) drove the company's +9% top-line growth and +23% EPS growth for the quarter, and the company's decision to exit the Obamacare exchanges market continued to prove prescient, as UnitedHealth's losses on these individual plans have been relatively minor compared to its managed care peers.

During the month of December, media and entertainment company **Disney**, building controls company **Johnson Controls**, and automobile powertrain company **Delphi Technologies** were sold from the Dominant Companies category within the Up Market sector. As no corresponding portfolio purchases were made at this time in conjunction with these sales, a tactical shift was performed raising the weight of each of the remaining positions in the Dominant Companies category to 3.3% from 3.0%, and raising the positions in the New Products category to a 2.5% weighting from 2.0%. The Up-Market sector weighting in the portfolio remained unchanged, but the end result was trimming 2.5% of the portfolio allocation from the underlying Dominant Companies category over to the New Products category. Disney is undergoing a period of top- and bottom-line stagnation, as it reacts to the shifting media landscape and cable-TV cord-cutting by launching its own direct-to-consumer offerings. While Disney's other segments (Studio Entertainment, Parks and Resorts) have been growing nicely, the reduction of cable-TV subscriptions and ad revenue together with the short-term inflexibility of *ESPN*'s cost structure is posing a significant challenge for Disney in the near term.

As for the aspiring building-controls focused multi-industry company Johnson Controls, it made a compelling strategic move in 2016 by acquiring Tyco International (security, fire detection/suppression systems) in order to capture the opportunities created by the increased connectivity of homes, buildings and cities. Unfortunately, the execution of the integration of the two companies has been lacking, with no cross-selling and organic sales benefits materializing, and working capital challenges coming to the fore. Johnson Controls was therefore deemed operationally impaired and sold from the Stralem LCES portfolio. Lastly, the spinoff of Delphi Automotive's powertrain operations brought about the sale of that spinoff company (Delphi Technologies) from the portfolio. We decided to retain the higher-growth electronic architecture piece (Aptiv), which is poised to benefit from the secular trends towards the electrification of vehicles and towards autonomous driving. Proceeds from the sale of Delphi Technologies were deployed towards bringing Aptiv up to a full position in the Dominant Companies category within the Up Market sector.

ATTRIBUTION

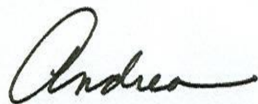
From a GICS industry sector attribution standpoint, in Q4 the Health Care and Utilities detracted the most from LCES performance and while Energy contributed the most. In Stralem terms, for Q4 the High Yield category within the Down-Market sector and the New Products category within the Up-Market sector detracted the most from performance. The LCES saw the least detraction from the Low Price to Cash Flow category within the Down-Market sector and from the Dominant Companies category within the Up-Market sector.

For Q4 and for the full-year 2017, a significant portion of the relative underperformance of the LCES due to stock selection was attributable to two stocks, Apple and Amazon, which were *not owned* in the portfolio and which experienced a surge of investor enthusiasm. While Apple benefitted during the year from growing enthusiasm preceding the year-end launch of its latest *iPhone* models, we retain our conviction that consumers can be unpredictably fickle about handsets and hardware. We continue to have a distinct preference for software – both Internet software, and cloud-based, subscription-model application software. With respect to Amazon, again, while cognizant of its strong market performance, we remain wary of the company's investment-heavy, and revenue-focused model that continues to forego profits, and the stock's greater than 300x forward valuation on those slim earnings.

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,



Adam Abelson
aabelson@stralem.com
+1-212-888-8124

Andrea Baumann Lustig
andrea.lustig@stralem.com
+1-212-888-8121

Erik Kleinbeck
erik.kleinbeck@stralem.com
+1 212-710-6077

"PRIVATE AND CONFIDENTIAL"

This information is intended for the recipients use only. Do not distribute this to clients unless you are using this information in a one-to-one presentation with the disclosures set forth below. The views expressed represent the opinion of Stralem & Company Incorporated. The views are subject to change at any time and are not intended as a forecast or guarantee of future results. There is no assurance, as of the date of publication, that the securities discussed in this commentary remain in the LCES. Additionally, the securities discussed do not represent the entire LCES portfolio and in the aggregate may represent a small percentage of the LCES portfolio. See the performance notes included in this presentation. Past performance is not indicative of future results.

© 2018 Stralem & Company Incorporated.

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)	
				Composite							
	Assets (millions)	Assets (millions)	Number of Accounts	Gross	Net	S&P 500	Composite Dispersion	Composite	S&P 500	Composite	S&P 500
2017	685	545	34	17.37%	16.65%	21.83%	0.3%	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	Five or fewer	0.95%	-0.54%	-11.93%	N.A.	12.51%	-1.04%	12.87%	16.94%
2000	266	85	Five or fewer	5.93%	4.38%	-9.10%	N.A.	24.33%	12.26%	14.13%	17.66%
1999	326	33	Five or fewer	33.16%	31.88%	21.04%	N.A.	33.15%	27.56%	14.59%	16.76%
1998	288	25	Five or fewer	36.23%	34.91%	28.58%	N.A.	29.85%	28.23%	16.84%	16.24%
1997	260	29	Five or fewer	30.13%	28.86%	33.36%	N.A.	30.55%	31.15%	14.83%	11.30%
1996	230	24	Five or fewer	23.51%	22.31%	22.96%	N.A.	22.82%	19.68%	14.10%	9.72%
1995	121	23	Five or fewer	38.42%	37.08%	37.58%	N.A	15.38%	15.34%	11.00%	8.34%
1994	104	16	Five or fewer	8.37%	7.30%	1.32%	N.A	5.17%	6.27%	10.11%	8.06%
1993	106	14	Five or fewer	2.40%	1.40%	10.08%	N.A.				
1992	80	12	Five or fewer	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 September 30, 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 September 30, 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.

Definition:

Standard Deviation is a measure of absolute volatility of returns.