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**PORTFOLIO MANAGER COMMENTARY**
**First Quarter 2019**

# STRALEM LARGE CAP EQUITY STRATEGY

## SUMMARY

- *In Q1 of 2019, the S&P 500 Index was up 13.65%, representing a near full reversal of the historically weak fourth quarter of 2018 when the index was down 13.52%, and the month of December return (-9.18%) was the worst December since 1931. As historically bad as the Q4 return was, the Q1 rebound was almost equally historic, as it represented the best Q1 since 1998 and the month of January return of 8.01% was the fifth best January since 1930!*

- *Stralem's Large Cap Equity Strategy ("LCES") returned 13.91% gross of fees, versus the S&P 500 index return of 13.65%, for a relative outperformance of 0.26%. This was the second consecutive quarter of outperformance and helped drive excellent relative (+3.2%) and absolute performance (+12.7%) over the trailing twelve months.*

- *The LCES predictably protected capital in the severe Q4 downturn by returning -9.97% gross of fees, versus the S&P 500 index which returned -13.52%. Yet the strategy also outperformed during the swift Q1 rebound by advancing 13.91% vs the S&P 500 return of 13.65%.*

- *Comparing returns of the S&P 500 and LCES across Q418 and Q119, it looks like the S&P's steep loss in Q4 of -13.52% was fully recovered in the drastic rebound of 13.65% in Q1. But in reality, the S&P 500 fell 1.72% short of recovering its full value across the two quarters. In Q4, the LCES, lost only 9.97% (74% downside capture), and therefore only needed to rebound by 11.07% to return to its full value. Fortunately, our stock selection in Q1 was strong and our slight outperformance helped drive the 4.28% outperformance across the two quarters. Once again demonstrating that by protecting capital in down markets and participating in up markets is among the best ways to build long-term outperformance.*

- *The first quarter relative outperformance was largely attributable to a) very strong stock selection among our Healthcare holdings (including Bristol Myers' takeover bid of Celgene), b) strong stock selection in Consumer Discretionary, and c) strong returns for some individual portfolio holdings.*

- *Analyzing the portfolio in Stralem terms, for Q1 the High Yield category within the Down-Market (-56bps) detracted from performance, while the New Products category within the Up-Market (+86bps) and the Low Price Cashflow category within the Down-Market (+42bps) provided the greatest boost to relative performance.*

| | Annualized Returns (3/31/19) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | YTD 3/31/19 | 1 YR | 3 YR | 5 YR | 10 YR | 15 YR | 20 YR | 10 YR Std. Dev. |
| **Stralem Composite (Gross)** | **13.9%** | **12.7%** | **11.2%** | **9.1%** | **13.9%** | **9.4%** | **8.7%** | 11.2% |
| S&P 500 | 13.7% | 9.5% | 13.5% | 10.9% | 15.9% | 8.6% | 6.0% | 12.6% |
| ***Difference*** | ***0.3%*** | ***3.2%*** | ***-2.3%*** | ***-1.8%*** | ***-2.0%*** | ***0.8%*** | ***2.7%*** | *-1.4%* |
| **Stralem Composite (Net)** | 13.7% | 12.0% | 10.5% | 8.4% | 13.1% | 8.5% | 7.7% | 11.2% |

**MARKET COMMENTARY**

In the first quarter of 2019, the S&P 500 Index was up 13.65%, representing a near full reversal of the historically weak fourth quarter of 2018 when the index was down 13.52%, and the month of December return (-9.18%) was the worst December since 1931. As historically bad as the Q4 return was, the Q1 rebound was almost equally historic, as it represented the best Q1 since 1998 and the month of January return of 8.01% was the fifth best January since 1930!

The three issues causing the most investor angst in Q4, namely the Federal government shutdown, the Federal Reserve's fourth rate increase in 2018 and the ninth overall, and the lack of progress on a trade deal with China, all seemed to recede in early 2019. The President and Congress were able to work out a deal to re-open the government. The Fed reacted to the drastic market sell-off and the sub-par Q4 GDP print of 2.2% by reversing course and suspending all rate hikes for the time being. Lastly, despite the lack of any concrete progress, the Trump Administration talking heads provided optimism that a resolution to the China trade deal stalemate was in the offing and it would be "great".

While investors quickly recovered their optimism for equities Q1, we remain less sanguine about the global macro environment. We acknowledge that unemployment is at record low levels, Fed tightening is on hold, and inflation remains at bay; however, we must balance this against the political gridlock in Washington, the slowing GDP growth in the U.S. as well as other developed and emerging markets, and the unending trade war with China, all within the context of a decade long bull market that appears to be tiring. Many large and high-quality companies in our purview continue to execute and produce near-record profits while using the excess cash to fund expansion, investment, and stock buy backs. However, other companies such as Apple and Ford Motor are suffering under Trump's tariff and China trade war regime and have struggled to execute their plans. This type of backdrop may create anxiety in the marketplace, 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 volatile, 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**

While the LCES predictably protected capital in the severe Q4 downturn by returning -9.97% gross of fees, versus the S&P 500 index which returned -13.52%, the Strategy also outperformed during the swift Q1 rebound by advancing 13.91% vs the S&P 500 return of 13.65%.

Stralem's mantra and the driver of our investment strategy is "Participation with Protection" whereby we strive to protect capital when markets fall so that we only need to participate in the upside and still outperform over the long run. The protection element has not been necessary for most of the past 10 years because the stock market only continue to rise, and it rarely produced a downside that needed to be protected against. However, the events of Q418 and Q119 represent a near perfect illustration of what Stralem is attempting to accomplish and why we believe Participation with Protection is the optimal way to build long-term wealth.

Examining the returns of the S&P 500 across the two quarters, it would seem as though the steep loss in Q418 of -13.52% was fully recovered in the drastic rebound of 13.65% in Q119. But in reality, the S&P 500 fell 1.72% short of recovering its full value. The Stralem LCES, only lost 9.97% (74% downside capture), and therefore only needed to rebound by 11.07% to return to its full value. Fortunately, our stock selection in the quarter was strong and our slight outperformance in Q1 helped drive the 4.28% outperformance across the two quarters. Once again demonstrating that by protecting capital in down markets and participating in up markets is among the best ways to build long-term outperformance.

| | **Q418** | **Q119** | **Total Rtn Q4-Q1** |
|---|---|---|---|
| Stralem LCES | -9.97% | 13.91% | +2.56% |
| S&P 500 | -13.52% | 13.65% | -1.72% |
| *Outperformance* | *+3.55%* | *+0.26%* | *+4.28%* |

The first quarter relative outperformance was largely attributable to a) very strong stock selection among our Healthcare holdings (including a takeover bid of Celgene by Bristol Myers), b) strong stock selection in Consumer Discretionary, and c) strong returns in some individual portfolio holdings.

Healthcare performed well in Q418, but the growthy and innovative biotech companies were under pressure because of calls for government regulations on exorbitant drug prices. Celgene and Alexion Pharmaceuticals were down 28% and 29% respectively. However, Bristol Myers used this sell-off as an opportunity to pounce, and bid $105/share for Celgene, a 64% premium to its year-end price. Although we strongly believe in Celgene's robust pipeline and new management team, we took this opportunity to exit the position. As is typically the case, when one company in a sector is acquired, investors attempt to figure who might be next. It is this speculation that likely drove Alexion up 39% in the quarter. Danaher was the third strong performer in the quarter, up 28%, as the company was able to take advantage of the turmoil occurring at General Electric. As the company tries to become leaner and more focused, it's being forced to sell-off some of its most attractive assets, including the very successful Biopharma unit that Danaher bid $21 billion for. It's an ideal fit for Danaher's Life Science unit, and while the purchase price is large, Danaher has a long history of integrating acquisitions and wringing out additional profits. Collectively, Celgene, Alexion and Danaher added 162bps of alpha, and helped offset less stellar quarters from United Healthcare, Pfizer and Abbvie.

The Consumer Discretionary sector contains two of our smaller market cap positions, homebuilder D.R. Horton and auto architecture and technology company, Aptiv. D.R. Horton was under pressure in Q4 as mortgage rates rose along with the Fed actions and they saw a slowing in demand. Although Aptiv sells the technology backbone for existing autos and the autonomous cars of the future, it can trade as a high growth cyclical company—it was down 26% in Q4. However, when the Fed announced they were pausing, mortgage rates (and auto loan rates) fell and these interest rate sensitive companies took off. D.R. Horton was up 20% in Q1 and Aptiv was up 29%. Together they contributed 70bps of alpha.

Several other companies had strong returns in Q1, Facebook was up 27% based on strong earnings and a commitment to address some of the issues plaguing the company. Kinder Morgan rose 32% in the quarter after opening a new pipeline, increased commodity prices, and the President's executive order to speed up future pipeline approvals. Lastly, one of the new additions in the quarter, Cisco Systems, was up 26% after reporting stellar results from Q4 and issuing very strong guidance for 2019. While our investment thesis takes a longer look than a single quarter, it is always nice to get an early pop on a recent buy.

Offsetting the aforementioned strong performance in the quarter, there were some stocks with specific company issues that weighed on the performance, most notably, Abbvie, Intercontinental Exchange and DowDupont. Abbvie reported a less-than-stellar earnings in Q4, where its flagship drug, Humira, experienced some weakness in international sales. The company has struggled to find other pipeline options, so the leverage to Humira increases and that causes investor concern. We are watching this issue, but to date we do not think it has impaired the investment thesis.

Intercontinental Exchange had a solid but unspectacular quarter. Most of sales and profits come from the data business, which is based on annual subscriptions providing stability and predictability of sales. As the company seeks to grow through additional data and service offerings, it becomes a little harder to precisely predict future earnings. After ICE gave their 2019 guidance, the street lowered the growth rate slightly and while the company was +1.5% for the quarter, it was a clear laggard. Maintaining a steady base of business while consistently adding new services and features remains an important part of our investment thesis, so we continue to hold the stock.

DowDupont is in the process of splitting the company into 3 separate yet far more focused, companies. The first step took place in March with the spin-off of Dow, Inc—which contains all the specialty chemical products. The second step will be to spin-off all the agricultural assets (seeds, traits, pesticides, etc.) which is expected to occur later this year. In the quarter, DowDupont was essentially flat (+0.37%) as investors analyze which of the 3 companies they ultimately want to own and this drives volatility in the stocks as the spin-offs occur.

Analyzing the portfolio in Stralem terms, for Q1 the High Yield category within the Down-Market (-56bps) detracted from performance, while the New Products category within the Up-Market (+86bps) and the Low Price Cashflow category within the Down-Market (+42bps) provided the greatest boost to relative performance.

## PORTFOLIO ACTIVITY & OUTLOOK

There were two portfolio purchases in the quarter, Cisco Systems and Progressive Insurance, and two portfolio sales, Celgene and Chubb Insurance. Cisco and Celgene are Up Market securities, while Progressive and Chubb are Down Market stocks.

Celgene is a biotechnology company we added to the portfolio in 2011 and we rode their best-in-class blood cancer drug, Revlimid, and the succession of acquisitions the company completed to grow scale and diverse away from being a single drug company. This formula worked very well until recently as Revlimid's growth has matured and the acquired pipeline did not produce as planned. As we contemplated whether to hold or sell the stock, Bristol Myers made a health acquisition bid for the company (30%+ premium) and we decided to sell into the strength capturing a total return of 187% since purchase.

Chubb was added to the Down Market in 2015 because of its reputation as a conservative, high-quality Property and Casualty underwriter that had just acquired Ace Insurance and we believed strongly in the combined company. The stock performance from a boring insurance company in a bull market was better than expected 29% since 2015, but ultimately, with all the synergies of the Ace Insurance acquisition behind them, we became concerned about the impact climate change may have on their P&C book of business and we decided to sell the stock.

Celgene was replaced with best-in-class networking company, Cisco Systems. Cisco's product line extends from routers to switches, Wi-fi to cellular, and all things in between. Their products create the communication infrastructure (the "pipes") and the logic and functionality ("traffic cops") that make using the internet possible and incredibly seamless – globally. Historically more of a hardware company that made only devices, over the past 5 years Cisco has transformed itself into more of a software company. While hardware components (routers, switches) are absolutely required to run a network, the innovation is happening to the network's brains – or the software layer used to create more network intelligence, security, and functionality. This is important because the margins on software are MUCH higher, and they can be sold in recurring revenue based annual subscriptions. This strategic shift, as well as additional expense control, disciplined M&A, and the future advent of 5G and Wi-fi 6 protocols should provide a multi-year tailwind of demand for Cisco's products.

Progressive Insurance replaced Chubb in our Down Market. Progressive's primary business is auto insurance, but they are pushing into personal-use vehicle coverage (motorcycles, snow mobiles, etc.), homeowner's insurance, and even commercial policies to increase their share of wallet. While the auto insurance market is crowded, Progressive uses technology and innovation to collect more data and improve underwriting decisions, which in turn, allows them to better price their offerings relative to the risk. This results in the industry's highest margins and cash flow generation which can be applied to increasing sales and marketing and/or research and innovation. We believe that as Progressive expands into new classes of insurance, their data driven approach will lead to the same industry leading results.

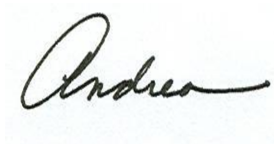
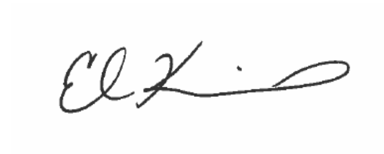
The Stralem philosophy is about preparing for the future rather than trying to predict it. We believe the changes to the portfolio will prepare us for additional volatility that likely lies ahead. With the Fed on hold, and the U.S. economy stable at 2-3% GDP growth, we think investors will apply more 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 two 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% | 20.14% | 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 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.