Stralem & Company Incorporated
551 Madison Avenue, New York, NY 10022
Tel 212.888.8123 | Fax 212.888.8152
stralem.com

PORTFOLIO MANAGER COMMENTARY
First Quarter 2018

STRALEM LARGE CAP EQUITY STRATEGY

SUMMARY

- *In Q1 of 2018, Stralem's Large Cap Equity Strategy ("LCES") returned -2.32% gross of fees, versus the S&P 500 index return of -0.76%, for a relative underperformance on 156 basis points.*

- *Despite the encouraging reversion to a set of more historically "normal" market conditions (volatility off of record low levels, two-way market action) that favors active management in general, and in particular gives the LCES portfolio structure, with its "Down-Market" allocation, a chance to boost returns by preserving capital, certain names in the portfolio were beset by a rare confluence of industry- and stock-specific idiosyncratic headwinds that prevented the portfolio from fully exercising its capital-preservation characteristics.*

- *The relative underperformance for the quarter was driven by stock selection, due to the confluence of "one-off" idiosyncratic events.*
  - *The regulated utilities (Dominion Energy, PPL Corp and Duke Energy) within the Down Market sector are required to pass through the benefits of the lower corporate tax rate to their customers. They therefore did not participate in the widespread investor enthusiasm over tax cuts, and they also endured a collective one-time hit to their credit metrics due to the impending rate reductions.*
  - *The surprise regulatory decision by the Federal Energy Regulatory Commission (FERC), effectively no longer allowing pipeline MLPs to pass through income tax allowances to customer rates also dragged down our companies involved in pipeline infrastructure, even though they are not MLPs and therefore not directly affected by the policy change (Kinder Morgan and Dominion Energy).*

- *LCES company earnings continued to provide high-quality growth in the calendar Q4 corporate earnings season, posting top-line growth of 10.7% and earnings growth of 23.7%, as compared to 7.7% top-line growth and 14.1% earnings growth for the S&P 500 index. 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.*

	YTD 3/31/18	Annualized Returns (3/31/18)						10 YR Std. Dev.
		1 YR	3 YR	5 YR	10 YR	15 YR	20 YR	
Stralem Composite (Gross)	**-2.3%**	**7.2%**	**8.8%**	**10.3%**	**8.3%**	**10.4%**	**9.2%**	13.0%
S&P 500	-0.8%	14.0%	10.8%	13.3%	9.5%	10.1%	6.5%	15.0%
Difference	**-1.5%**	**-6.8%**	**-2.0%**	**-3.0%**	**-1.2%**	**0.3%**	**2.7%**	*-2.0%*
Stralem Composite (Net)	-2.5%	6.5%	8.1%	9.6%	7.5%	9.5%	8.2%	13.0%

MARKET COMMENTARY

While the broad S&P 500 index was down only slightly for the first quarter, it started strong out of the box in January, with a 5.6% gain powered by enthusiasm over the boost to companies' earnings forecasts from the corporate tax cuts, and the continued momentum of big technology companies. Wobbles started in February, with a 10.2% drawdown and a spike in volatility. The market ructions were touched off by the blowing-up of some derivative strategies related to the VIX index designed to "short" volatility. In March, President Trump launched concerns of a trade war with China by levying tariffs on steel and aluminum imports, followed by tit-for-tat announcements of broader ranges of goods each country intends to target with tariffs. Also in March, data privacy concerns came to the fore with the revelation that the data analytics firm Cambridge Analytica gained access to the private information of nearly 50 million Facebook users. Increased criticism of big technology firms by politicians and regulators has been putting pressure on the share prices of these firms, leading the market decline during the month.

The U.S. economy continued to show signs of strength, with Q4 Real GDP growth being revised up to +2.9%, driven by consumer spending growth, which was revised up to +4.0%. Business spending is continuing its improvement, with Industrial Production growing at 4.3% in February and Durable Goods Orders (ex-Transportation) growing at 7.8%. While there are concerns over the American consumer's ability to continue driving consumption growth, given the high level of indebtedness and the increase in debt servicing costs, it is widely assumed that low unemployment and strong consumer confidence should continue to be supportive of consumer spending. Despite some hints of rising wage costs and commodities price pressure in companies' supply chains, inflation remains tame with the headline CPI at +2.2% in February. The ex-U.S. economic growth backdrop remains solid, with major economies and the emerging markets experiencing a period of steady, synchronized growth. Eurozone GDP grew at 2.7% in Q4, Japan grew 1.6%, and China grew 6.8%.

In calendar Q4, corporate earnings strength continued, with S&P 500 companies collectively growing their sales by 7.7%, and earnings by 14.1%, which was an acceleration over Q3's 5.3% sales growth and 6.8% earnings growth. Notably, Q4's top-line growth accelerated over Q3 for each of the 11 broad industry sectors in the S&P 500 benchmark index. Most of the broad sectors were able to expand margins as well, resulting in a robust rate of earnings growth. In the Q4 earnings reporting season, companies raised their forward guidance to reflect the increase in profits that will result from the lowering of the corporate tax rate from 35% to 21%. In aggregate, analysts expect S&P 500 companies to grow their earnings by some 20% in 2018.

While the economic growth and corporate earnings growth backdrops are unquestionably positive, global liquidity conditions that have been so supportive of asset classes across the board over the last decade are

starting to become less favorable. The Federal Reserve under its new chairman Jerome Powell raised the federal funds rate another 25bps to 1.50%-1.75%, the 6th rate hike since December 2015, and the FOMC has signaled 2-3 more rate hikes this year. In addition, the Fed started to taper its balance sheet in October 2017 by letting securities mature without replacing them. The European Central Bank (ECB) is also setting the stage for tapering by dropping language about increasing the size of its quantitative easing from its latest monetary policy statement, and the Bank of Japan (BOJ) said that it would start considering an exit strategy for monetary policy in 2019. The size of the collective balance sheet of the Fed, the ECB and the BOJ has yet to go in reverse, but its pace of increase is leveling off. This clearly represents a reversal of the last decade's trend in global liquidity, which constitutes a paradigm change for investors, and as stated above, will likely lead to a step-up in volatility levels and more two-way action in financial markets going forward.

Another factor that should be reason for caution among investors in the U.S. stock market is the level of valuations. While the 8% decline for the S&P 500 off its January peak, combined with the tax-cut-driven increase in companies' earnings estimates for 2018, have brought the forward P/E ratio of the index close to its long-term average of 16.1x, historically P/E ratios are inversely correlated to interest rates – especially during periods when the 10 year Treasury yield trends above 3%. After an incredible +372% return for the S&P 500 index from its March 2009 low (+18.7% annual equivalent return), it is hard to believe that valuations can extend much further in the face of a decidedly more hawkish Fed that is determined to march interest rates higher.

PORTFOLIO COMMENTARY

During the first quarter of 2018, the Stralem Large Cap Equity Strategy ("LCES") returned -2.32% gross of fees, versus the S&P 500 index which returned -0.76%, for a relative underperformance of -156 bps. We were very much encouraged by the reversion to a set of more historically "normal" market conditions (volatility off of record low levels, two-way market action) that favors active management in general, and in particular gives the LCES portfolio "Down-Market" sector a chance to boost returns by preserving capital, however certain names in the portfolio were beset by a rare confluence of industry- and stock-specific idiosyncratic headwinds that prevented the portfolio from fully exercising its capital-preservation characteristics.

The first quarter relative underperformance of the LCES was entirely attributable to "one-off" adverse idiosyncratic events. The tax cut deal signed by President Trump in the final days of 2017, provided a boost to the forward earnings estimates of most U.S. companies. One exception was the regulated utilities, as they are required to pass through the benefits of the lower corporate tax rate to their customers. The regulated utilities, which are well-represented in the LCES portfolio, therefore did not participate in the investor enthusiasm over the raised earnings expectations, and also endured a collective one-time hit to their credit metrics due to the impending rate reductions. Another one-off event was the surprise regulatory decision by the Federal Energy Regulatory Commission (FERC), effectively disallowing pipeline companies from passing through income tax allowances to customer rates, which dragged down our companies involved in pipeline infrastructure (even though they are not directly affected by this policy change). The negative impact to our utilities and pipeline company drove more than a percentage point of relative underperformance in the first quarter, with the balance attributable to stock-specific news affecting a couple Up-Market stocks (i.e. clinical trial failure at Celgene, fears of trade war effects on DowDuPont).

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 too 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. With the U.S. stock market posting two consecutive negative-return months in February and March, after a stretch of 15 straight positive-return months, the market is starting to digest these risks, and volatility and downside moves will likely be more prominent going forward. Therefore, while we will continue to identify and invest in the most exciting thematic secular growth opportunities that will provide participation in Up Markets, we will continue to maintain a Down-Market component in the portfolio for protection if and when the market falls.

PORTFOLIO PERFORMANCE & ACTIVITY

With the completion of the Q417 earnings reporting season, LCES companies have performed very well, collectively posting top-line growth of 10.7% and earnings growth of 23.7%, as compared to 7.7% top-line growth and 14.1% earnings growth for the S&P 500 index.

Individual relative performance (gross of fees) drivers during Q1 did not reflect this obvious quality gap, but rather reflected the industry- and stock specific idiosyncratic headwinds outlined above. Cumulatively, the one-off regulated utility/pipeline re-ratings associated with tax/regulatory events, accounted for 106 basis points of *negative* attribution: **PPL Corp** (-7.3%), **Duke Energy** (-6.8%), **Dominion Energy** (-15.9%) and **Kinder Morgan** (-20.1%). The rare confluence of adverse idiosyncratic events also weighed on Up-Market names such as **Celgene** (-14.5%) and **DowDuPont** (-10.1%). Partially offsetting these headwinds were continued solid performances from **Adobe** (+23.2%), **Thermo Fisher** (+8.8%) and **Danaher** (+5.6%), which together accounted for 99 basis points of *positive* attribution.

Celgene (New Products category within the Up-Market sector) received an unexpected setback when the FDA turned down its application for the multiple sclerosis treatment candidate *ozanimod*, saying it was incomplete. Following on the heels of the failure of a late-stage Crohn's disease candidate in Q3, investors penalized Celgene's stock. We believe the downward move in Celgene has been overdone, and does not fully reflect the value of the company's core multiple myeloma drug franchise, *Revlimid*, which is expected to grow 15% in 2018. Furthermore, while the *ozanimod* application rejection was a disappointment, Celgene has the opportunity to address the FDA's concerns and resubmit the application.

DowDuPont (Dominant Companies category within the Up-Market sector) was dragged down in March with the escalation of tariff rhetoric and trade tensions. Investors have decided to shoot first and ask questions later. However, we remain confident in DowDuPont's prospects due to the current robust global demand for chemicals and plastics, and also because the company has plenty of production capacity located outside of the U.S. (Sadara JV with Saudi Aramco) that should still be able to sell into China.

On the positive side of the ledger, several individual LCES stocks had an excellent quarter and helped to counter the idiosyncratic headwinds outlined above, notably Adobe Systems, Thermo Fisher and Danaher. Adobe Systems (New Industries category within the Up-Market sector) returned +23.2% for the quarter, as

it continued to see momentum and posted another set of strong results for its fiscal Q1 2018. Sales grew 24% and EPS grew 65%. The company saw strong contributions to growth from its *Creative Cloud* business, as well as from its *Experience Cloud* (digital marketing) business. Adobe continues to see new subscription demand for its added features and new services, and is exercising its pricing power by raising prices on some of its key offerings.

Life Sciences tools and services company Thermo Fisher (New Products category within the Up-Market sector) returned +8.8% during Q1 as it also had a very strong report (Q4 2017), beating analysts' estimates by a wide margin on the top and bottom lines, with a sequential acceleration in top-line growth to 22%, and bottom-line growth to 16%. Health Care Equipment company Danaher (Dominant Companies category within the Up-Market sector) posted solid Q4 2017 results, showed a strong sequential acceleration in its organic sales, and also continues to achieve margin expansion by applying its "Danaher Business System" set of operational practices to acquired businesses.

During the month of January, biotechnology company **Amgen** (New Products category within the Up Market), and integrated oil and gas company **Exxon** (Low Price to Cash Flow category within the Down Market), packaged foods company **Kraft Heinz** (High Yield category within the Down Market), were sold from the LCES portfolio. These three positions were replaced within their categories by **Alexion Pharmaceuticals** (biotechnology), **Kinder Morgan** (oil and gas pipelines and storage) and **AbbVie** (biotechnology) respectively.

Amgen's 1st-generation biotechnology drugs have been cash cows, the proceeds of which the company has been using to develop and acquire pipeline candidates and launch those newer drugs. In recent quarters, Amgen has been experiencing attrition of its core franchise drugs due to biosimilar competition and the development of alternate cancer therapies, but the company's newer drugs, while growing, have not been able to pick up the slack. The company's RGV (relative growth valuation) score has been weakening, and is at risk of weakening further as this trend continues. As for Exxon Mobil, the company has reached the end of a long run of decreasing capital expenditure intensity, which means the tailwinds of improving free cash flow will likely start to reverse as the company increasingly feels the need to spend in order to replace reserves and take on more early-stage, but risky, large-scale projects. Kraft Heinz, for its part, has successfully applied the cost-cutting playbook of its activist investor (3G Capital) since Heinz acquired Kraft Foods in 2015. Unfortunately, the company has not been as successful in reinvigorating top-line through product innovation and organic growth. With the lack of organic growth, the company likely needs to make another major acquisition in order to provide another boost through massive cost-cutting. However, since the failed $143 billion takeover bid for Unilever in early 2017, no such acquisition has been seriously on the radar, which has caused Kraft Heinz's shares to languish. With potential targets becoming more expensive, we decided to sell Kraft Heinz and deploy the proceeds elsewhere.

Alexion Pharmaceuticals replaces Amgen in the New Products category within the Up Market. Alexion is an innovative orphan drug based biotech company whose primary drug, *Soliris*, is a 'C5 complement inhibitor' that has proven extremely effective in treating the 'ultra-rare' genetic blood disorders paroxysmal nocturnal hemoglobinuria (PNH) and atypical hemolytic uremic syndrome (aHUS), both characterized by the death of red blood cells, which can cause blood clotting and organ damage. *Soliris* was also approved more recently for generalized myasthenia gravis (gMG), a rare but chronic and debilitating neuromuscular disorder. With a new management team, Alexion is leveraging its core competency of identifying and developing drugs for rare-disease populations. Alexion's newer products include enzyme replacement therapies *Strensiq* (1st approved treatment for hypophosphatasia (HPP) in children) and *Kanuma* (treatment for lysosomal acid lipase deficiency (LAL-D)).

Kinder Morgan replaces Exxon in the Low Price to Cash Flow category within the Down Market. Kinder is the largest energy infrastructure company in North America, operating 84,000 miles of pipelines that transport natural gas, refined petroleum products, crude oil, condensate and CO2, along with more than 150 terminals that transload and store petroleum and chemical products. The U.S. shale revolution, Mexican natural gas demand and increasing LNG exports are boosting demand for energy infrastructure, and Kinder generates stable, fee-based cash flow primarily under take-or-pay contracts. Kinder lives within its cash flow (which fully funds expansion capex and dividends), has a transparent corporate structure (unlike opaque MLP structures) and works hard to align management's and shareholders' incentives.

AbbVie replaces Kraft Heinz in the High Yield category within the Down Market sector. AbbVie has taken its place among the largest pharmaceutical companies in the world, driven by sales of its autoimmune drug *Humira*, the largest-selling drug in the world. While the "active ingredient" patent for *Humira* expired in 2016, AbbVie has successfully staved off biosimilar competition, and *Humira* sales continue to grow. The extension of market dominance for best-in-class *Humira* will provide abundant cash flow to keep increasing its dividend payout to investors, and to fill its pipeline via acquisitions.

ATTRIBUTION

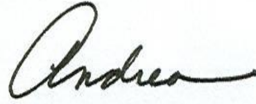
From a GICS industry sector attribution standpoint, in Q1 Utilities and Consumer Discretionary detracted the most from LCES performance while Consumer Staples contributed the most. In Stralem terms, for Q1 the New Industries category within the Up-Market sector and the High Yield category within the Down Market sector detracted the most from performance, while the Dominant Companies category within the Up-Market sector provided the greatest boost to relative performance.

The regulated utilities drove the relative underperformance attributable to the Utilities sector within the GICS industry sector attribution, as well as to the High Yield category within the Stralem classification attribution. Amazon, which is *not owned* in the LCES portfolio, continued to benefit from investor enthusiasm as the company expands into new and exciting categories. We continue to be wary of the company's investment-heavy model that continues to forego near-term profits and push into adjacent markets as the antitrust drumbeat of politicians and regulators grows louder. The *absence* of Amazon in the LCES drove the relative underperformance attributable to the Consumer Discretionary sector within the GICS attribution, as well as to the New Industries category within the Stralem classification attribution. On the positive side of the ledger, the Consumer Staples sector provided the greatest boost in the GICS industry sector attribution, primarily as a result of name brand consumer staples companies *not owned* by the LCES, which are experiencing fragmentation of demand, weak pricing and commodities inflation (Procter & Gamble, Pepsico and General Mills, etc.). Within the Stralem classification attribution, the Dominant Companies category provided the greatest boost, driven by **Danaher** (+5.6%) on strong organic sales growth and margin expansion, and **Visa** (+5.0%) on strong holiday-season spending and payments volumes.

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	Andrea Baumann Lustig	Erik Kleinbeck
aabelson@stralem.com	andrea.lustig@stralem.com	erik.kleinbeck@stralem.com
+1-212-888-8124	+1-212-888-8121	+1 212-710-6077

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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)	
				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. 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, 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.

Definition:

Standard Deviation is a measure of absolute volatility of returns.