INVESTMENT UPDATE: COLEMAN FOUNDATION ***Performance through Sept. 30, 2018***

To: Michael W. Hennessy (MH), Esther Barron (EB), & R. Michael Furlong (MF), Alison Fitzgerald (AF)

From: Daniel B. Wanzenberg (DW) & Trevor C. Davies (TD)

Re: **Market Update as of Sept. 30, 2018 with performance updates through 09/30/2018**

Allocation and Performance *(please see the asset allocation spreadsheet* ***as of 10/29/2018****, which is at the end of this report)*

The US economy continued to thrive in the third quarter as US stocks and Treasury yields drove higher and set US equities far ahead of other world indices. In September, US consumer confidence hit its highest level since 2000, while the monthly average of initial jobless claims fell to its lowest level since 1969. Further, wage growth rose to the highest level since 2009, supporting retail sales saw growth of 7% year on year, and the solid gains of Growth stocks leave few surprised that US equities have delivered attractive returns YTD. From a Global perspective, Emerging Market (EM) equities have been weighed down heavily by a slowdown in the pace of Chinese credit growth, fears over a tightening US monetary policy, and potential trade and tariff tensions. As the Fed continues to raise rates and unwind its balance sheet, EM countries with large debts and/or fiscal deficits may continue to be pressured. Additionally, higher oil prices will continue to weigh down EM economies that are large oil importers, in particular those whose currencies have fallen, which further increases the cost of imports in local currency terms. UK equities continue to be hurt by fears of a possible "no-deal" Brexit and many investors are seeing an impasse within the Conservative Party.

In the third quarter, the S&P 500 returned 7.7% and is now up 10.6% YTD. As mentioned above, Growth was the best performing asset class in Q3 as it gained 6.2% and now has returned 11.8% YTD. Small Cap stocks gained 2.5% for the quarter and now have returned 6.4% YTD. Globally, the Japan TOPIX returned 5.9% and has now gone from the red to green as it's gained 2.0% YTD. The MSCI EM gained a modest 0.1% return in Q3 but remains down -2.6% for the year while the MSCI Asia ex Japan is the worst performing index for the year as it struggled to -0.9% in Q3 and now is down -3.5% YTD.

Of note, towards the end of September, GICS instituted a reclassification in which the Telecommunication Sector was combined with other media industry, software industry, and IT Services industry, among others, to create the "Communication Services" GICS sector. Currently, that sector represents approximately 11% of the S&P 500 and includes names such as Facebook, Google, Electronic Arts, T-Mobile, and Verizon. Within the International Markets, names such as Tencent Holdings, China mobile, Veon, and Vodafone will join this GICS sector.

CFI Equity: (Current 69.3% vs. Target 70.0%)

CFI US Public Equity *(*review manager commentaries and additional attachments/performance attribution)

(-/-) Dana: *Large Cap* - underperformed the S&P 500 index (6.30% vs. 7.56%) for the third quarter. YTD: 6.67% vs. 10.09%

Small Cap **-** outperformed the Russell 2000 index (7.21% vs. 3.48%) for the second quarter. YTD: 9.01% vs. 11.21%

(+) **In-House Equities:** At 09-30-18 CFI owned 12 stocks in the In-House account. Our largest holdings in the account (in millions) are Mastercard ($2.6), Apple ($2.3) and 3M ($1.9). Our largest gainers over cost basis are Amazon (800%), Mastercard (600%) and Apple (465%). The best performing stocks YTD through 10/31 are Amazon (36%), Mastercard (31%) and Apple (30%).

(+) **Pinnacle Associates:** Pinnacle outperformed the Russell 2500 index (7.55% vs. 4.59%) during the third quarter. YTD: 9.86% vs. 10.07%

(+) **Fuller & Thaler (F&T)**: The F&T Micro-cap portfolio outperformed the Russell Microcap index (4.65% vs. 0.83%) for the third quarter. YTD: 8.10% vs. 11.64%

(-) **LaSalle Street**: The LaSalle Street Small Cap portfolio underperformed the Russell 2000 index (2.16% vs. 3.48%) for the quarter. YTD: 7.43% vs. 11.21%

CFI International Equity:

(=) Blackrock Passive (MSCI ACWI ex/US): The MSCI ACWI ex/US index returned 0.89% for the quarter. YTD: -2.93%

(+) **WCM Focused International Growth:** WCM Focused Growth outperformed the MSCI ACWI ex US index (3.27% vs. 0.71%) for the quarter. YTD: 6.52% vs. -3.09%

(+) **WCM Focused International Value:** WCM Focused Value underperformed the MSCI ACWI ex US index (1.96% vs. 0.71%) for the quarter. YTD: -1.14% vs. -3.09%

CFI Private Equity:

CFI now is invested in five funds managed by two different firms (Portfolio Advisors and Brickman) in the Private Equity space.

Portfolio Advisors: CFI started investing in these Funds in 2007 and 2008. All three Funds will no longer make any major new investments and any remaining commitments will be used as a reserve for existing investments and netted against distributions from each fund as needed. All of these Funds are in the process of liquidation of their Investments and returning the proceeds to Investors. The following is the current recap of CFI's 9-30-18 Estimated Market Values (MV) of each Commitment and Proceeds Returned to CFI for the 2018:

Equity Fund IV 9-30-18 MV $1,740,820 with Total Distributions in 2018 of $539,142

Equity Fund V 9-30-18 MV $1,769,382 with Total Distributions in 2018 of $589,387.

Secondary Fund 9-30-18 MV $725,962 with Total Distributions in 2018 of $194,023.

Total Distributions for the YTD, 2018 from PA was 1,322,552. Up from the YTD of 2017 $1,192,792. or +10.9%. For All Funds, Fund IV, Fund V and the Secondary Fund have returned all the original investment made to Date. Total MV PA Funds at 9-30-18 is $4,236,164 vs 9-30-17 MV $5,534,037, Down $1,297,873.

Brickman Real Estate LP (Brickman Fund V and Fund VI and commitment to Fund VII) Fund V during the Third Quarter, 2018 the Fund called $0 for new investments, and returned $0 Capital. Current Estimated MV of Fund V at 9-30-18 is $962,898. Fund V will no longer make any major investments in Buildings, only improvements to currently owned Buildings. Fund V is also in the process of liquidation of their Buildings over the next several years which will affect the Overall Performance of this Fund. During YTD, 2018 Fund VI also called $0 for new Investments and returned $ 216,450 Capital. Estimated MV of Fund VI at 9-30-18 is $5,091,529. During 2017, CFI made a committed $5 million to Brickman's Fund VII, no Funds have been called to date and the first call is anticipated at the end of 2018.

Hillcrest Credit and Income Fund II, LP: CFI has committed $5 million to this Fund, initial closing 7-28-16, which will target a market segment in subordinate debt and preferred equity in high quality real estate assets in top U.S. metropolitan markets. CFI is considering this to be a Fixed Income Investment with the Fund's Capital call in YTD of 2018 of $3,530,068. Estimated MV at 9-30-18 $3,530,068.

CFI Fixed Income: (Current 28.7% vs. Target 28.5%)

(=) Wasmer Schroeder (WS) Traditional: WS performed in-line with the Barclays Agg. 3-5 yr. index (0.38% vs. 0.14%) for the quarter. YTD: -0.33% vs. -0.68%

(=) Wasmer Schroeder CMBS/Hybrid Account: The MITX account returned a positive 75 bps in the 3rd quarter, for the year the account has returned 0.21%. The allocation at quarter-end was 22% preferred stock, 32% corporate bonds, 45% municipal bonds with the remainder in cash.

(-) **NorthCoast Tactical Income:** underperformed the Barclays Agg. 3-5 yr. index (0.97% vs. 0.14%) for the quarter. YTD: -0.63% vs. -0.68%

(+) **Lord Abbett Short Duration Funds –** Holder of cash until Capital Calls on investments. Current daily Yield 4%.

(+) **Goldman Sachs Broad Street Realty Fund:** annualized distributions are providing income at approximately 9% (income Return).

(+) **Hillcrest Realty Income:** just started with capital calls in January 2018 and started payout interest quarterly.

Daniel B. Wanzenberg

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Trevor C. Davies

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Dana Investment Advisors

Market Commentary:

Trade disputes, political drama, and rising interest rates could not hold back U.S. stocks during Q3. The S&P 500 Index posted a Q3 return of +7.71%, its best quarterly return since 2013. Growth outperformed value by wide margins across all market cap ranges. Indeed, the Russell 1000 Growth Index generated a total return 347 bps higher than the Russell 1000 Value Index in Q3, bringing the year-to-date growth over value gap to over 1300 bps. Mega-cap stocks led the market higher, and the 50 largest S&P 500 Index companies had an average total return of +9.69% versus an average +5.07% among the remaining Index constituents. Earnings season was also exceptionally strong, having benefited from tax cuts and better-than-forecast revenue growth.

Large Cap – Strategy Commentary

The Dana Large Cap Equity Strategy generated a strong return of +6.30%, yet lagged the benchmark. The Strategy held solid performers across an array of sectors, such as Royal Caribbean Cruises Ltd. (RCL) in Consumer Discretionary, Pfizer, Inc. (PFE) in Health Care, and Apple, Inc. (AAPL) in the Information Technology sector. These stocks have attractive relative valuations and solid fundamentals, including rising sales and earnings. Mega-cap concentration within the S&P 500 Index remained a headwind, as 1.2% of the 1.4% performance advantage of the S&P 500 Index over the Dana Large Cap Equity Strategy came from just the 4 largest companies in the Index. Three of these stocks, while held in the Strategy, were underweighted versus the Index as a result of Dana's disciplined minimization of portfolio concentration risk, the benefits of which we expect to return over time. In the meantime, the Dana Large Cap Equity Strategy continues to generate attractive absolute returns, with further upside potential as corporate earnings continue to grow.

Sector Contributors

Industrials – all five Strategy holdings produced double-digit positive returns in Q3, including Norfolk Southern Corporation (NSC), Delta Air Lines, Inc. (DAL), Caterpillar, Inc. (CAT), Waste Management, Inc. (WM) and Boeing Company (BA); not owning General Electric Company (GE) also contributed to relative returns

Communication Services – double-digit returns by T-Mobile U.S., Inc. (TMUS) significantly contributed to this sector, which underwent a major restructuring in composition by S&P at the end of the quarter
Sector Detractors

Information Technology – underweights to mega-caps Apple, Inc. (AAPL) and Microsoft Corporation (MSFT) accounted for more than the full underperformance in this sector; weakness in semiconductor holdings, particularly Microchip Technology, Inc. (MCHP), also detracted from returns

Consumer Discretionary – lack of exposure to Amazon.com, Inc. (AMZN) accounted fully for the underperformance in the Consumer Discretionary sector; Lear Corporation (LEA) pulled back as auto production forecasts were revised downwards

Select Additions

Bristol-Myers Squibb Company (BMY) – offers above-average growth at a below-average valuation, based upon Dana's analysis that the growth potential of cancer drug, Opdivo, is underestimated

NetApp, Inc. (NTAP) – the Company's hardware storage products are gaining market share in an already robust IT spending environment; data storage and accessibility is increasingly mission critical in many industry verticals, and corporations are upgrading or replacing legacy systems after years of underinvestment; cash flow valuation is attractive, and NTAP maintains a healthy net cash position

Select Deletions

AbbVie, Inc. (ABBV) – has been a solid performer over the past few years as their largest drug, Humira, has grown to over 60% of company sales; the positive Humira story may be inflecting negatively as the company faces new competition in Europe; with a high concentration of revenues in one product that is potentially slowing, other stories within the pharmaceutical sector look more attractive

Lear Corporation (LEA) – the Company is facing additional headwinds as their global auto production forecasts are revised downwards and trade tensions with China escalate; raw material prices are also up, which results in higher costs; while the company is well managed, slowing growth and rising costs limit upside potential

Small Cap

Market Commentary:

The S&P 500 Index posted a Q3 return of +7.71%, its best quarterly return since 2013. The Russell 2000 Index was up +3.58%, while lagging larger stocks for the quarter, its +11.51% return year-to-date still outperformed the S&P 500 Index. Growth outperformed value across all market cap ranges, a trend that has been in place for most of the past two years. Factor attribution in small caps showed momentum was a key component and driver of growth returns, while value factors were largely ignored until July. While momentum had won the hearts of investors, their minds appear to have turned toward value and quality factors. In addition, upwardly revised sales forecasts and significant double-digit earnings growth are lifting many sectors and supporting secular tailwinds in several industries. As earnings growth has broadened, growth is no longer scarce, and value once again is starting to matter.

Strategy Commentary

The Dana Small Cap Equity Strategy generated a return of +7.21% in Q3, a strong absolute return and double that of the benchmark. The second quarter earnings season was strong and even stronger for the Strategy's holdings as 83% beat earnings estimates and 76% beat forecasted sales estimates. We believe that small caps remain attractive relative to large caps and that underappreciated value and quality factors will begin to reward investors once again. This backdrop is favorable to the Dana Small Cap Equity Strategy as investors continue to shift their focus to profitability, quality and value versus momentum.

Sector Contributors

Information Technology – strong performance from Application Software holdings generated 213 basis points of performance contribution; Q2 purchases Trade Desk, Inc. (TTD) and Five9, Inc. (FIVN) were joined by Alarm.com Holdings, Inc. (ALRM), Bottom line Technologies, Inc. (EPAY) and RealPage, Inc. (RP) in generating above industry average returns; all five firms beat earnings and revenue expectations

Health Care – strong performance from Biotechnology and Heath Care Technology holdings outweighed weakness in Pharmaceutical positions; Ligand Pharmaceuticals Incorporated (LGND) and Emergent BioSolutions, Inc. (EBS) surged more than 30% due to rising sales growth; Health Care Tech companies HMS Holdings (HMSY) and Tabula Rasa Healthcare, Inc. (TRHC) had double-digit gains in a hot industry that itself returned 20%; both companies are gaining market share in their cost containment analytics niches

Sector Detractors

Consumer Discretionary – pullbacks in two holdings cost 75 basis points of performance; Weight Watchers International, Inc. (WTW) took a pause after the market protested subscriber growth below lofty estimates, yet the firm continues to execute positively on its lifestyle brand transition; Household Durables Industry struggled in the face of committed Fed tightening and the impact on the housing market; TopBuild Corporation (BLD) fell despite reporting a good quarter as investors reacted to margin pressure and macro concerns

Select Additions

Boyd Gaming Corp. (BYD) – an organic growth story in the gaming industry, Boyd offers exposure to interactive gaming and sports betting trends; company could get to 11% free cash flow yield in 2019

Echo Global Logistics, Inc. (ECHO) – Echo is a domestic trucking broker with logistic services and a heavy technology focus; M&A has added scale and strengthened competitive positioning, allowing Echo to take market share; driver shortage, trade concerns and e-commerce are tailwinds

Select Deletions

TopBuild Corp. (BLD) – sold position to exit a weakening industry and gain exposure to gaming; rising concerns for housing and construction cost inflation are formidable headwinds

Advanced Energy Industries (AEIS) – reduced exposure to semiconductor industry; debate over supply and demand issues in semis likely to endure into 2019 leaving too much uncertainty to forward estimates

Pinnacle Associates

Strengths

Materials

Telecommunication Services

Consumer Discretionary

Weaknesses

Information Technology

Health Care

The Russell 2500 Growth Index returned +7.17%* in the third quarter and the Small/Mid Cap portfolio outperformed with a total return of +7.59%.

Outperformance was driven primarily by positive contributions from the Materials, Telecom and Consumer Discretionary Sectors. For Materials, the portfolio's zero current exposure to this area helped performance, as Materials in the benchmark returned -1.7% as compared to the overall Russell 2500 Growth Index return of +7.2%. In Telecom, satellite communications operator Iridium Communications rose 16% (bringing the year to date return to +90%) as the company neared completion of its NEXT satellite constellation deployment. Iridium's new satellite network will allow the company to offer enhanced services and enter new markets. Toward the end of the quarter the company announced it had joined the Amazon Web Services Partner Network to collaborate on the first satellite cloud-based solution, offering truly global coverage for Internet of Things (IoT) applications. In Consumer Discretionary, Travel & Leisure holdings led the sector. Media stocks also rebounded. Theme park operator SeaWorld rose 44% after beating earnings expectations and raising its financial outlook, as a rebound in attendance seems to be gaining steam. World Wrestling Entertainment advanced 33% in the wake of its new 5 year carriage agreement with Fox and USA Network in the U.S. WWE is approaching carriage renewals in the UK and India and the new U.S. agreements have raised investor confidence that the company will gain substantial economics in these deals as well. Royal Caribbean Cruises rose 26% after reporting strong Q2 earnings and receiving positive analyst commentary. In Media, Discovery Inc. returned 16% after it announced new distribution agreements with Sling and Hulu, and TV station owners like EW Scripps outperformed after raising forecasts for political ad revenues tied to mid-term elections.

Negative impacts from the Technology and Health Care sectors partially offset the positive performance noted above. In Technology, semiconductor and semiconductor capital equipment stocks suffered due to fears of a trade war with China and near term concerns of a general slowdown in the industry. We continue to view the group favorably as we expect a trade deal to ultimately be reached (as we have seen with South Korea, Mexico and Canada) and any industry correction to be short-lived. It was noted that the fall in semiconductor stocks during Q3 brought the SOX index PEG ratio to its lowest level since 2003. In Health Care, the portfolio saw some holdings perform exceptionally well, but this was offset slightly more by declines in others. Seattle Genetics (+16%), Myriad Genetics (+23%) and PTC Therapeutics (+39%) outperformed on strong fundamentals. Medicines Company, which has a promising treatment for uncontrolled cholesterol, fell 18% after Amarin Corp. reported reduced cardiac events in its trial testing the use of its fish oil drug. We believe the market misinterpreted the results, as Amarin's drug is targeting patients that are controlled with regular statin therapy. Medicines is targeting patients where statins are not effective enough or are not tolerated due to side effects. Portola Pharmaceuticals declined 29% after management reduced guidance for its recently approved blood thinner. We continue to believe the company's second approved drug, Andexxa, is more significant to the story. Andexxa is the first and only approved antidote for blood thinners (patients on leading anticoagulants Eliquis and Xarelto face great risk with uncontrolled bleeds). Portola is seeking approval for its commercial stage Andexxa manufacturing process, with an FDA decision expected at year end. Lastly Spark Therapeutics, a gene therapy company with a focus on orphan retinal disease and hemophilia, dropped 34%. Shares were impacted by positive early stage trial results reported by an emerging competitor in hemophilia. Spark's treatment for inherited retinal dystrophy (IRD), Luxturna, has been approved in the U.S. and in September received a positive opinion from the E.U.'s Committee for Medicinal Products for Human Use (CHMP). A final approval decision in the EU is expected within two months.

During the quarter, we initiated a new position in nLight Inc., a leading manufacturer of semiconductor and fiber lasers. We also added to or filled out positions in AeroVironment Inc. Highpoint Resources Corp. and Werner Enterprises. We liquidated Janus Henderson Group, Microchip Technology Inc. MSG Networks Inc. and Sinclair Broadcasting. We also reduced weightings in Arris International, Cars.com and Integrated Device Technology. Prior to our reduction in Integrated Device Technology, the company agreed to be acquired by Renesas in an all cash offer of $49 per share.

Fuller & Thaler

The third quarter saw positive returns across the overall equity market. In the small-cap and micro-cap areas growth outperformed value.

The Micro-Cap strategy had a positive third quarter, returning 4.65% gross of fees out performing versus the Russell Micro Cap Index return of 0.83% and outperforming the Russell 2000 return of 3.58%.

The Micro-Cap Strategy in the third quarter saw out performance in the months of August and September and underperformance in the month of July. Out performance in the quarter came from stock selection in the consumer discretionary, healthcare and material sectors. The portfolio was also impacted by liquidity in the quarter as the above chart displays; the most liquid stocks in the portfolio were strong for the quarter.

Stocks in both the value and growth portion of the portfolio were major contributors to the out performance. Names that helped performance included Verso (VRS), Boot Barn (BOOT), Invitae (NVTA), W&T Offshore (WTI), and Natural Grocers (NGVC). Names that hurt performance included Fiesta Restaurants (FRGI), Town Sports International (CLUB), Titan International (TWI), Immersion (IMMR), and Maxwell Technologies (MXWL). Portfolio positioning is unchanged with a continued underweight in financials and a continued over weight in the technology, consumer discretionary, and industrial sectors.

There have been several opportunities in the micro-cap area recently, with 9 new stocks added to the portfolio in the last quarter; six growth stocks (five earnings surprise stocks and one upgrade) and three value stocks (one insider, two repurchase) We expect the Micro-Cap Strategy to continue to provide superior performance over the long run because of its ability to identify and take advantage of mis-priced stocks across a spectrum of industries and sectors due to behavioral bias.

Wasmer Schroeder

MAIN ACCOUNT COMMENTARY -

- The Coleman Foundation account outperformed its primary benchmark, gross of management fees, for the 3rd quarter. The account returned 0.40% against 0.21% for the index. For the year, the account has returned -0.52% vs -0.76% for the index.
- The overweight to corporate bonds in the account was the primary driver of performance during the quarter. Corporate credit rebounded throughout the quarter from the late selloff in the second quarter.
- The allocation to taxable municipal bonds in the account also contributed to performance.
- Duration management of the portfolio was neutral to the benchmark from both an overall standpoint and yield curve placement.
- Sector allocation at quarter end was 52% corporate bonds, 45% taxable municipal bonds and a small allocation to securitized bonds with the remainder in cash.

SECONDARY ACCOUNT COMMENTARY -

- The MITX account returned a positive 75 bps in the 3rd quarter, for the year the account has returned 0.21%.
- The allocation at quarter-end was 22% preferred stock, 32% corporate bonds, 45% municipal bonds with the remainder in cash.

WCM

Focused International Growth

Performance Review

For 2018's 3rd Quarter, the Focused Growth International ADR (FGI ADR) portfolio delivered a positive return of +3.7%[1], outperforming the MSCI ACWI ex US index by ~+290 basis points (bps)[1]. For the trailing year, FGI ADR is ~+1,120 bps[1] ahead of that benchmark.

The major non-U.S. equity benchmarks (i.e., ACWI ex US, EAFE) eked out a positive return in Q3—for the first time in 2018. Sector leadership was mixed: Health Care had the largest positive impact on ACWI ex US returns, but Financials, Industrials, and Energy were each about the same as Health Care. On the other side, Tech and Discretionary were the laggards. As a result, FGI ADR's bottom-up sector biases (toward "growthier" sectors) presented a headwind this time around. Even so, solid, broad-based stock selection delivered good outperformance, spotlighting once more the benefit of positive-moat-trajectory businesses during uncertain times.

Keeping an eye on the longer term, the three-year excess return relative to the benchmark now stands at ~+530 bps (annualized)[1], the five-year is ~+570 bps (annualized)[1], and the ten-year excess is ~+630 bps (annualized)[1].

Attribution

For 2018 Q3, our bottom-up sector biases hurt a bit: sector-based attribution shows that allocation detracted, so all the outperformance was stock selection. Geography-based attribution was similar, revealing modestly positive allocation, and dominant stock selection.

Contributors:

Sector allocation analysis revealed that our overweights to Health Care (2nd best in benchmark) and Industrials (4th best), plus our underweight to Real Estate (worst in benchmark), were the primary contributors. For selection, our picks in Tech added the most, though Staples and Discretionary also helped. Regionally, selection dominated, due to picks in Europe and the Americas. Regional allocation delivered a modest contribution from every major geography.

Detractors:

Despite good picks in Tech, our overweight to the sector detracted in Q3 because Tech was the 3rd worst benchmark performer. Our underweight to Energy (best in benchmark) also hurt. For selection, our stocks in Energy and Financials were the only detractors. Regional analysis did not expose any detractor from allocation; for selection, our names in Asia/Pacific (mostly China, Japan, and India) detracted slightly.

Other Factors:

In Q3, capitalization, quality (here meaning higher ROEs), and our overweight to DM were

modest tailwinds for FGI ADR. On the other side, “value” outperformed “growth” (using MSCI’s style indices as the proxy), which was a slight headwind.

Comments:

As always, most observers expect continued volatility around interest rates, macro, and geo-political / geo-economic rhetoric and events. Big surprise! This time, however, there are some specific things that get pointed to, such as the US mid-term elections, tariffs, sanctions, rising rates and yields, energy prices, and the dollar. Contrarians argue that all this supposed bad news in fact points to accelerating growth and new opportunities for even more growth. Truth be told, no one really knows, and we still contend that the bad news everyone expects is actually not worth worrying about.

Nevertheless, an uncertain backdrop tends to be favorable for our kinds of businesses: good growth, expanding moats, and strong FCF generation are often viewed as safe harbors in such a time as this. And whenever that backdrop gives us an opportunity, we’ll upgrade the quality of the portfolio.

Buy: STERIS Plc

UK-based STERIS, like several of our health care names, is an attractive “picks & shovels” play, this time on the growth in surgical procedures. The company has a few primary business lines that help with sterilization and safety at hospitals and other healthcare clients. One offers onsite sterilization services for hospitals and biopharma companies. This is an excellent business with a strong recurring revenue component and inept competition (Getinge and Bellamet). Another provides contract sterilization services for medical device companies, sterilizing single-use devices before they are shipped to customers. This is an excellent, albeit capital intensive, business that operates as a rational duopoly (STERIS and Sterigenics) with sizable barriers to entry. The last primary business provides instrument repair for medical devices. STERIS bought a business (IMS) that does third-party repair for devices made by the likes of Stryker and Olympus, who reputedly overcharge the customer (and whose incentive is to sell replacement products, not repair existing ones).

Sell: Ferrari NV

We sold Ferrari after Sergio Marchionne stepped down as CEO (due to a terminal health issue). Sergio’s strategic direction was important to our thesis (targeting a profit double in 4–5 years by shifting the mix to ultra-high-priced vehicles, adding an SUV, and reaping the attendant operating leverage from its current excess manufacturing capacity), so when the board appointed Louis Camilleri, former CEO and chairman of Phillip Morris, as the new CEO, we were surprised, since we lack the same level of confidence in his ability to execute as we had in Sergio.

Buy and Manage:

We rounded into full position sizes for Hexagon AB and for Mettler-Toledo International. There were no trims in Q3.

Focused International Value

Performance Review

For 2018's 3nd Quarter, the Focused International Value ("FIV") portfolio delivered a positive return of 2.0%[1], outperforming the MSCI ACWI ex US index by ~+120 basis points (bps)[1]. For the Year to Date, FIV remains ahead of the benchmark by ~+160 bps[1].

The major, non-U.S. equity benchmarks (i.e., ACWI ex US, EAFE) eked out a positive return in Q3-for the first time in 2018. ACWI ex US sector leadership was mixed in Q2: Energy and Health Care were the two best while Tech and Discretionary were the two worst. As a result, FIV's bottom-up sector biases presented a headwind during the quarter. Despite the sector headwinds, stock selection was solidly positive, which led to the strategy's overall outperformance. Stylistically, Value outperformed Growth during the quarter, but continues to lag for 2018. Nonetheless, FIV remains ahead of the core benchmark Year to Date.

Keeping an eye on the longer term, the five-year excess return relative to the core benchmark now stands at ~+167 bps (annualized)[1], and since inception is ~+220 bps (annualized)[1].

Attribution

For 2018 Q3, sector-based attribution reveals that the majority of outperformance was stock selection, with sector allocation detracting modestly. From a country standpoint, attribution reveals that outperformance was roughly split between allocation and selection.

Contributors:

The primary sector-allocation contributor was our Real Estate underweight (worst benchmark sector). Our underweight to Staples also helped modestly. On the selection side, nearly all of our outperformance came from our picks within Discretionary and Technology.

Geographically, our overweights to Brazil, Israel, and Switzerland helped, as did our underweight to China. Our selections within Germany, Netherlands, Hong Kong, and Taiwan all contributed positively as well.

Detractors:

The primary detractors from a sector-allocation perspective was our overweight to Technology (3rd Worst in Benchmark), and our underweight to Energy (best in the benchmark). For selection, the primary weak spot was Staples, followed by Industrials.

Geographically, our overweight to Germany, Netherlands, and Belgium, as well as our underweight to Japan, were the primary detractors. For selection, our picks in Switzerland and Japan had the largest negative impact.

Other Factors:

In Q3, capitalization and quality (as measured by ROE) were modest tailwinds for the

portfolio. Additionally, Developed Markets outperformance over Emerging Markets, and the outperformance of Value over Growth, also benefitted the portfolio.

Comments:

We, like most observers, expect continued volatility around interest rates, macro, and geo-political / geo-economic rhetoric and events. Such an uncertain backdrop, though, tends to be favorable for our kinds of businesses: discounted valuations, strong fundamentals, expanding moats, and healthy FCF generation are often viewed as safe harbors in such a time as this. And whenever that backdrop gives us an opportunity, we'll upgrade the quality of the portfolio.

We remain optimistic that we can continue to find attractive opportunities in any market. Looking forward, we're maintaining our overweight in Tech and Discretionary, an allocation that, we think, best positions the portfolio to take advantage of long lasting tailwinds we're seeing around the world.

Portfolio Activity

Buy: Atlas Copco

Atlas Copco is the global leader in industrial compressors with superior R&D, innovation, and distribution. Recent concerns around semis have weighed heavily on the shares, offering a compelling entry point.

Buy: KBC Group

KBC Group is one of Europe's highest quality banks with a simple business model focused on banking, insurance, and asset management. It is the best operator in its core Belgian market and a market leader in several growing CEE economies.

Buy: Medtronic

Medtronic is a leading developer of therapeutic and diagnostic medical products. A cultural turnaround is driving operational improvements, innovation, and accelerated organic growth.

Buy: AIA Group

AIA Group is a leading Chinese life insurance company. An aging population and growing disposable incomes should provide lasting tailwinds to complement their disciplined underwriting, and best-in-class distribution.

Buy: Svenska Handelsbanken

SHB is a Swedish bank with a decentralized and entrepreneurial culture. SHB outperforms its Nordic and European peers, especially in down markets. Recent weakness provided us a great entry point for one of the highest quality banks in Europe.

Buy: Rolls-Royce

Rolls-Royce manufactures aero, marine, and industrial gas turbines for civil and military aircraft. It in the early innings of a multi-year turnaround centered on higher free cash flows and returns on invested capital.

Buy: Marine Harvest

Marine Harvest is the leading producer of farm-raised salmon, seafood products, and aquaculture feed. They are well positioned to benefit from burgeoning middle classes, and increasing demand for protein and quality, farm-raised seafood.

Sell: Embraer

We decided to sell Embraer after seeing the details of the joint-venture agreement with Boeing. Post-deal, the investment is not as compelling.

Sell: Arcelik

As our Arcelik investment became more about Turkey-related macro than the company itself, we decided to move on in favor of better ideas.

Sell: PagSeguro

PagSeguro was sold after a great run from its recent IPO price.

Sell: Rio Tinto

We sold Rio to reduce our exposure to mining in favor of our position in Vale SA.

Sell: Maple Leaf Foods

We sold Maple Leaf Foods to fund Marine Harvest.

Sell: ING

ING is struggling to fully turn the corner and we'd rather own Svenska Handelsbanken and KBC.

Sell: Michelin

We sold Michelin to fund higher conviction ideas.

Buy and Manage:

We trimmed Adidas and added to Merck KGaA.