

2018 was an even more challenging year in the market than what was indicated by the headline declines in the indices. Sentiment began the year at elevated levels, only to be rattled in February by a sudden storm of volatility, leaving most unable to assign a cause. That drop was eventually recovered by most of the major market averages, but after such a long stretch of a rising market with very few wobbles, the sudden drop in February was a helpful reminder that markets do not always go up. From our seats, there were fewer ways to win or keep pace as the indices recovered through the 2nd and 3rd quarters. The larger and the growthiest stocks had led their counterparts in 2017, but small caps took the reins in the first half of 2018. Ironically, after the mega-cap Facebook (FB) fumbled in July the entire market began to feel different, and the smaller caps gave up their leadership position. Finally, in the 4th quarter, the market took most everyone lower, big and small, and while there were several factors at play, again part of the drop can be pinned on another giant taking a fall; this time the Goliath was Apple (AAPL). While the 4th quarter's selloff was significant, we are surprised by the sudden swing in expectations for future Fed policy given the solid corporate profit reports and the great labor data. Just a few months ago the idea of another hike in late 2018 and the Fed's projection of three more in 2019 was not hotly debated; however, now market futures and a number of commentators have concluded that the Fed will not raise rates again!

SMID Cap Equity Comments:

We held up better than the benchmark during the 4th quarter due to our relatively more defensive positioning and our lack of exposure to the growthier stocks, which finally stumbled. Cash was king as there was no place to hide, with Utilities being the only sector to close the quarter with a positive total return. Favorably we were overweight this sector, and our three utility holdings appreciated.

For the third quarter in a row, eHealth (EHTH) was among our top three best performers, and Nobilis Health (HLTH) was among our weakest performers. This time they were first and last, respectively. We introduced the web-based health insurance broker, eHealth, in our July commentary. Maybe needless to say given the stock's 120% rise since our purchase in April, the thesis has played out well. The company is levered to the fast-growing Medicare population and recent changes in the individual market have helped stop the customer account declines. Currently the wind is at their back with the expansion of Medicare Advantage plans and the roll out of more attractive short-term plans for individuals. The company has also significantly improved how they market their services, partnering with providers, pharmacies, and affinity groups, which has already proven to be a more cost-effective way of driving sales.

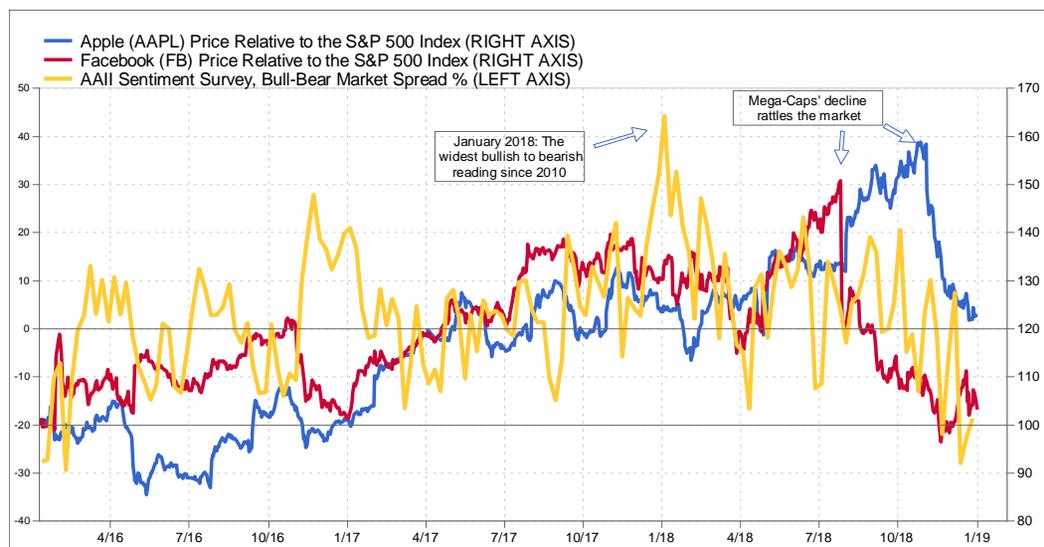
We did decide to sell our position in Spirit Air (SAVE), which was also a top three performer during the quarter and one of our strongest stocks over the past year. 2018 was a much-improved year for the airline. They remain the bare-bones offering relative to their competitors, but their effort to improve service and reliability was rewarded. Most surprising was that despite a substantially costlier pilots' contract, they have been able to lever the higher sales into higher profits. These self-help efforts, coupled with strong customer demand drove the shares up more than 50% in 2018 before we sold it in late November.

We did benefit from Virtu Financial (VIRT), which we added back to the portfolios in early October after having owned the stock successfully in early 2018. As the selling took hold in early October, we saw the potential for market activity to increase at the same time VIRT's stock was

trading at a lower valuation, and the thesis has played out very quickly.

The recovery we saw developing in September in Nobilis Health (HLTH) came to a sudden halt in November. The company is determining whether some of their longest dated receivables will be fully collected, and therefore need to be written down. This resulted in an inability to file their 3rd quarter financials and because the potential write-down could be significant, they could be in breach of one of their debt covenants. The news is especially disappointing given the update the company provided at a conference in late summer and in an August press release, indicating progress on improving collections. We remain shareholders today for five reasons: 1) the company has been consistently profitable for years and their debt is manageable; 2) while cash collection is the problem, the company has been consistently transitioning its business model so that today a majority of their procedures are in-network, which have much shorter collection periods. Importantly, none of the receivables in question are from recent acquisitions nor are they associated with in-network procedures; 3) In December, Nobilis split the role of Chairman and CEO, with the new hire of James Springfield, who brings significant industry experience to the company; 4) While the current fiscal year's profits and cash flow will be materially reduced by this event, the company has been growing EBITDA and revenue. Using the low end of the prior 2018 guidance as a base, even if the shares would double from today's level, the stock would still trade at a 50% discount to its comparable peer on both revenue and EBITDA.

We made several other position changes to the portfolio during the quarter that we would be happy to share with you. We look forward to speaking with you in the new year and we appreciate your continued trust in our service.



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