JAG CAPITAL MANAGEMENT LLC

QUARTERLY COMMENTARY
2nd Quarter 2018

Corporate Fixed Income

*Performance	2Q	YTD
Pure Gross	-0.12%	-1.66%
Net	-0.45%	-2.29%
BBIC	-0.10%	-1.60%

PERFORMANCE REVIEW

In the second quarter the market was chiefly concerned with geopolitical hot-spots (Iran, Syria, the Korean Peninsula, and Turkey), brewing trade wars (China, Europe, Canada, and Mexico), White House legal issues, OPEC Production, and the FED's view on economic data. Higher oil prices (Brent +13%, WTI +15%) and U.S. dollar strength (+4.8% DXY) generated volatility in emerging markets. Solid economic growth, along with buoyant investor and consumer sentiment, prompted "risk-on" trading in a higher U.S. Treasury rate environment, propelling equities and high yield higher before escalating trade tensions pared some gains.

Chair Powell's FOMC is overseeing an economy that has seen 2.0% growth in Personal Consumption Expenditures, the highest in six years; a 2.1% rise in the Consumer Price Index; and a precipitous drop to 3.754% in the unemployment rate, the lowest level for that indicator since 1969. The FOMC raised rates by a quarter point in June, the sixth such increase in 18 months, bringing the target rate to a range of 1.75% to 2.00%, while an ever-flattening yield curve and increasing trade tensions present a potential headwind to global growth and inflation.

Headlines sparked volatility in the U.S. Treasury yield curve as a generally higher and flatter trend was interrupted by spikes of steepening corresponding to brief periods of equity market weakness. For the quarter, the 2 to 10 year curve flattened by 14 basis points to 33, with a high in the quarter of 54. The 5 to 30 year curve flattened a similar 16 basis points to 25, with an inter-quarter high of 43.

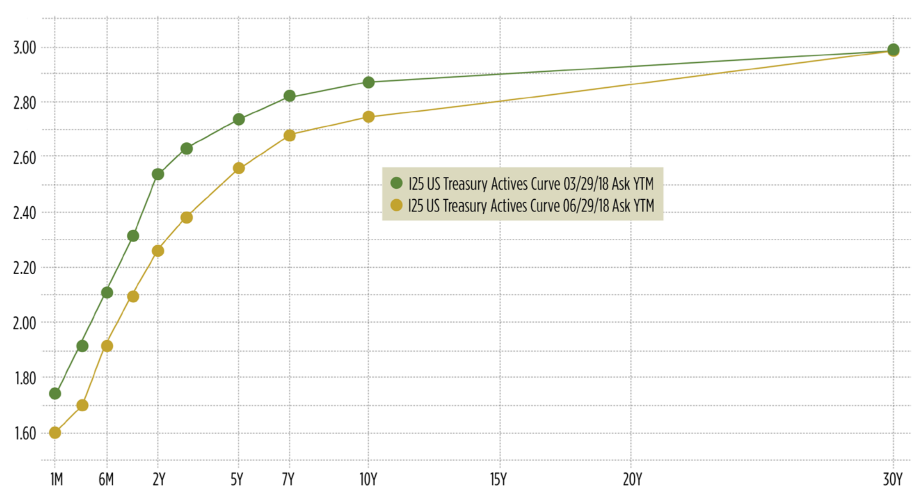
Excepting investment grade (IG) corporate credit all fixed income asset class returns were positive in the 2nd quarter, as measured by the Bloomberg Barclays family of indices. High yield (HY) corporates led with 1.03% of total return, outperforming U.S. Treasury inflation protected securities (TIPS) by 22 basis points, securitized credit by 80, nominal U.S. Treasurys by 93, and IG by 201.

Returns within the intermediate maturity sphere were in the same vein as their broad maturity brethren. The Bloomberg Barclays Intermediate High Yield index (BBIHY) was the top performer, returning 1.10% and outperforming 1 to 10 year TIPS by 49 basis points, intermediate U.S. Treasurys by 104, and the Bloomberg Barclays Intermediate Corporate index (BBIC) by 120.

US Treasury Yields		Lower (-)/Higher (+)
Maturity	6/29/2018	2Q△
1	2.312%	0.23%
2	2.528%	0.26%
5	2.738%	0.18%
10	2.860%	0.12%
30	2.989%	0.02%

US Treasury Curve (bps)		Flatter (-)/Steeper (+)
Curve Sector	6/29/2018	2Q △
2y/5y	21	-8
2y/10y	33	-14
5y/10y	12	-6
5y/30y	25	-16
10y/30y	13	-11

US Treasury Curve

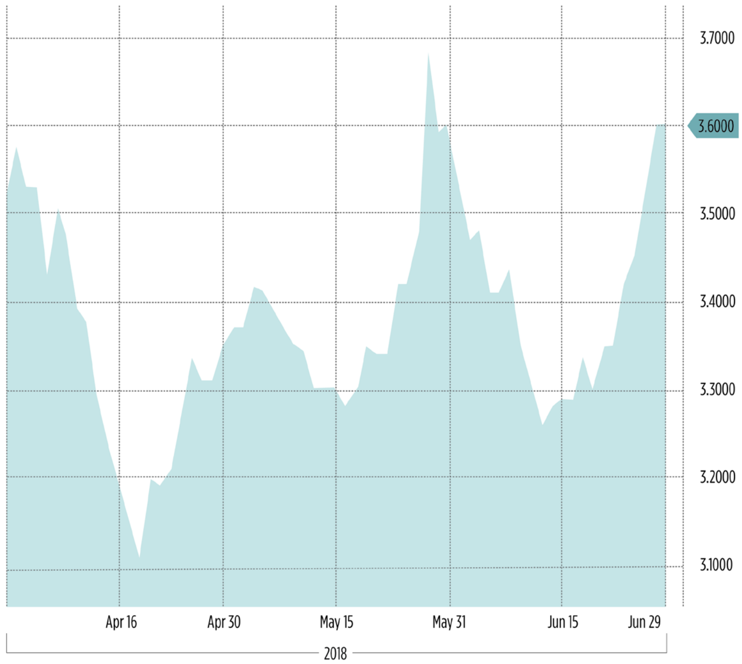


Source: Bloomberg, JAG Capital Management

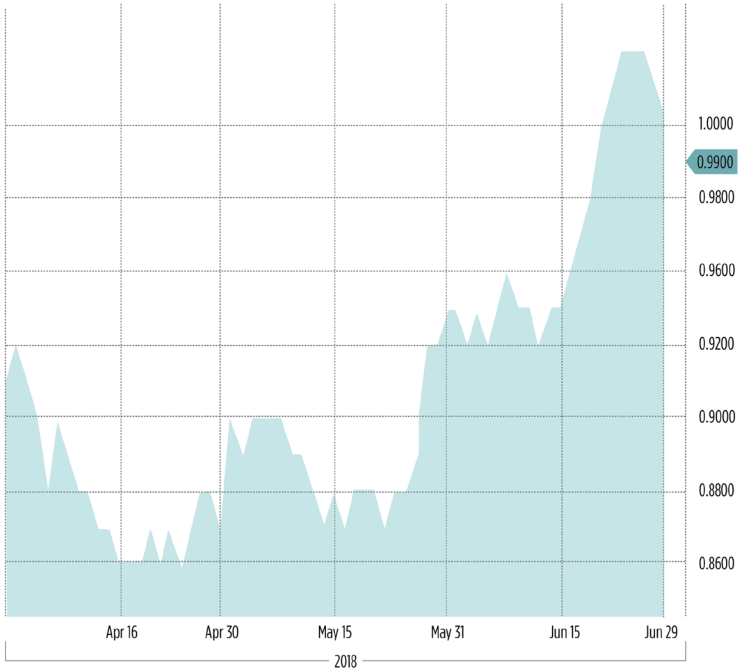
*Returns are presented gross and net of fees and include the reinvestment of all income. PAST PERFORMANCE SHOULD NOT BE CONSIDERED INDICATIVE OF FUTURE PERFORMANCE. Please refer to our 2Q '18 full performance disclosure for additional information. Gross returns are shown as supplemental information, as bundled/wrap fee accounts are stated gross of all fees and transaction costs. Net of fee performance was calculated using the highest applicable annual wrap fee during the applicable performance period, applied monthly. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Other than brokerage commissions, bundled/wrap fees include investment management, portfolio monitoring, consulting services and, in some cases, custodial services. Highest annual wrap fee used for Net of fee performance calculations may differ from fees listed in this paragraph due to the fee schedule of the sponsoring firm.

The 2nd quarter witnessed credit spread divergence between BBIHY and BBIC. IG spreads were under pressure amid market unease regarding "mega deals" from acquisitions, the impact of tariffs on corporate earnings, and stymied global growth. The HY market was concerned with fund flows, equity market performance ("risk-on" trading), and tariffs. The BBIHY and BBIC spreads to U.S. Treasurys threatened to take out 2018 lows in mid-April, descending to 311 and 86 basis points, respectively, before moving wider. Fears of inflation and tighter monetary policy fueled by improving economic data put pressure on spreads, as did level widening among increased inventories as dealers sought to attract buyers subsequent to large new issuance. BBIHY spreads peaked at 369 in late May following a sell-off in equities. They then fell as the class rallied with equities, although they failed to reach previous lows. Conversely, BBIC continued to gradually widen, to 100 basis points, before buyers came in at quarter-end leaving yields between 3.75% and 4.25%.

BBG Barclays Intermediate High Yield OAS



BBG Barclays Intermediate Corporate OAS



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Corporate Fixed Income (CFI) generated a negative return in the 2nd quarter of 2018, underperforming BBIC by 2 basis points gross-of-fees and 35 basis points net-of-fees.

Attribution analysis versus BBIC reveals 5 basis points of active return and 6 of excess return over U.S. Treasurys with excess return comprised of -1 basis point of allocation effect and 7 of selection. Curve return subtracted 1 basis point as U.S. Treasurys closed higher and flatter, increasing in yield by 26 basis points at the front end (2 year) and 12 basis points longer (10 year). CFI produced 102 basis points of income and -108 basis points of market return.

On a credit quality basis CFI was led in the 2nd quarter by Ba rated issues, which outperformed BBIC by 70 basis points and lagged BBIHY by 50. Icahn Enterprises (IEP), Level 3 Financing (LVLT) and Newfield Exploration (NFX) were the top-performing issues while Owens Corning (OC) underperformed. B rated issues, driven by CNX Resources (CNX), outperformed BBIC by 66 basis points while underperforming BBIHY. An array of outperforming financial and industrial holdings helped offset lag by Campbell Soup Company (CPB), Kraft Heinz (KHC), and Sherwin-Williams (SHW) among Baa rated issues, which beat BBIC by 6 basis points.

Top performing sectors in CFI in the 2nd quarter were Other Financial (+168 bps), Communications (+70), Insurance (+55), Energy (+53). Bottom sectors included Electric Utility (-277 bps), Brokerage/Asset Management/Exch (-89), Basic Industry (-55), and Finance Companies (-42).

The five highest performing issues, led by CNX with 4, contributed 17 basis points of performance to CFI in the 2nd quarter. CNX traded in a 1 point range, moving with oil prices and high yield energy spreads. LVLT contributed 3.5 basis points as their integration into CenturyTel continued. Revenues increased 3.8% year-over-year and free cash flow jumped to $353 million from $266 million. Kennametal (KMT) and IEP each added 3.3 basis points. KMT posted an 11% increase in sales with margin expansion of 150 basis points as pricing strength remained ahead of material inflation. IEP sold Federal Mogul to Tenneco in a $5 billion transaction and received favorable press coverage for activist shareholder activity. Revenues increased by 38% at NFX amid higher oil prices and production increases.

The bottom five issues in CFI contributed -27 basis points in the 2nd quarter. Jefferies Group (JEF), with a -11 basis point contribution, posted the worst performance as they shed business lines to focus on financial services and rebrand as Jefferies Financial Group, abandoning the Leucadia moniker. Pacific Gas & Electric subtracted 7 basis points as fears of wild-fire liability grew and KHC lost 4 on M&A headline risk, particularly with KHC as a potential buyer of CPB. Lower expected repair and replacement volumes from storm damage hampered OC's attempts to raise prices, leaving the company to contribute -3 basis points in the quarter. SHW rounds out the trailing five with a -2 basis point contribution while the company continues to integrate Valspar post acquisition while facing some raw material cost inflation.

In the 2nd quarter CFI purchased Charter Communications (CHTR) and CPB, adding 13 basis points to overall portfolio yield. Nokia OYJ (NOKIA) and SHW were sold outright. Verizon Communications (VZ) was tendered for repurchase by the company and the LVLT position was called by the company in entirety. These transactions leave CFI with approximately 5% cash at its quarter-end to be opportunistically invested in the current wider spread and higher rate environment.

At quarter-end CFI has a portfolio yield to worst of 3.94%, 24 basis points above the benchmark. Effective duration is 3.97 years versus 4.27 for the benchmark while OAS of 118 basis points improves benchmark OAS by 35 basis points. By sector, CFI holds a 5% overweight in financials and lesser overweights in communications, energy, and capital goods. Underweighted sectors include consumer cyclical, consumer non-cyclical, technology, basic industry, and utilities.

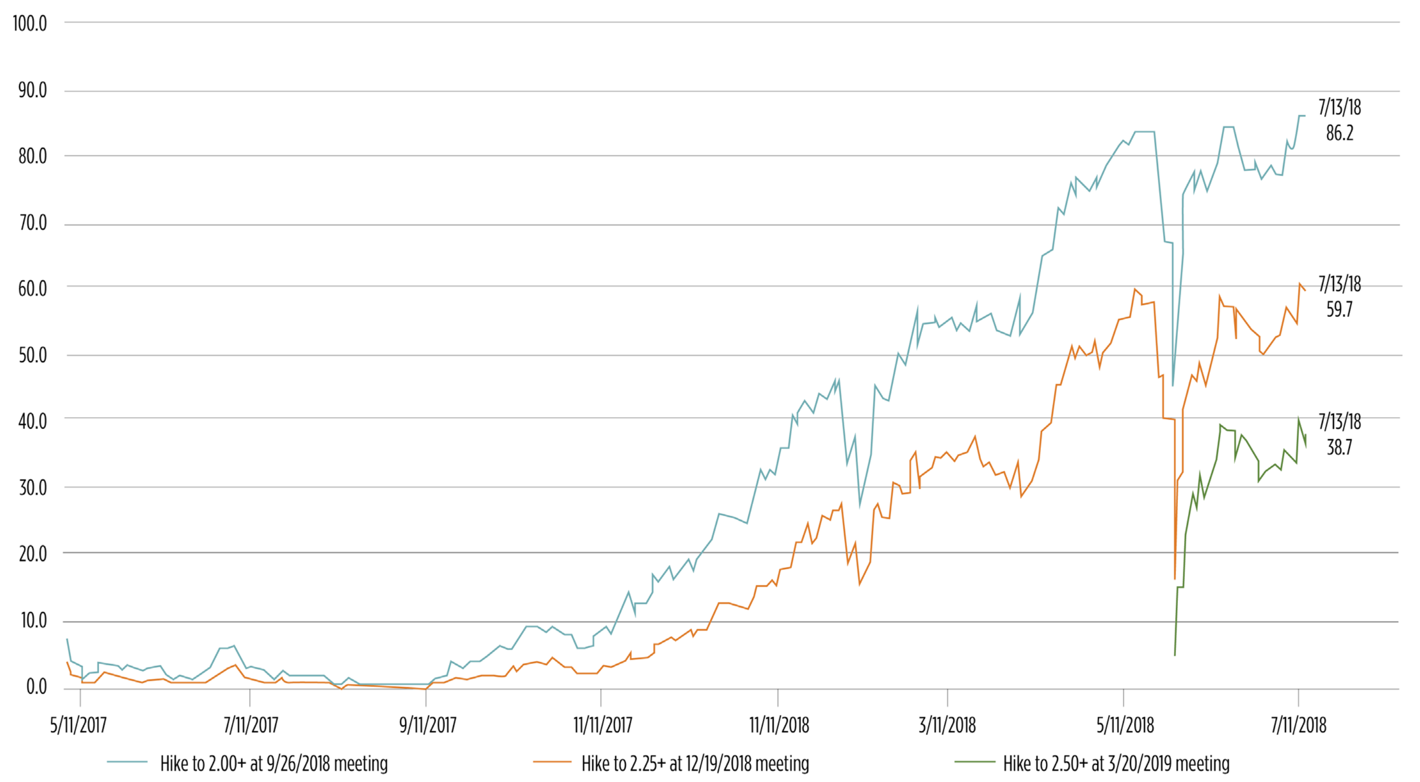
MARKET OUTLOOK

We currently have improving economic growth, rising inflation, higher rate (yield curve), and low credit default risk expectations. The Twitter and headline grabbing musings out of Washington D.C., tariffs, and the percolating trade wars with Asia, Europe, Mexico, and Canada are potential cooling winds to the economy.

FED Chair Powell's view of the economy is that it is in great shape. Growth is good, unemployment is low, and inflation is near the FED's target of 2%. The risks in this landscape are from trade policy and tax reform effects.

The FOMC feels that risks are balanced between the economy growing faster than they anticipate or unexpectedly weakening. According to Chair Powell, who suggests a strong job market, near target inflation, and balanced risks is the best path forward, a program of gradually increasing rates is the proper course. The FOMC is cognizant that raising too slowly my increase inflation while raising too quickly may cool the economic expansion.

Probability of Rate Hikes at 2018 and 2019 Fed Meetings



Source: Bloomberg, JAG Capital Management

The market is pricing in two additional rate hikes for 2018, in September and December, with the December hike potentially foregone if growth falters.

The U.S. Treasury curve continues to flatten, which will likely provide fuel to the "inversion is coming" and "recession is around the corner" camps who argue that the FED has fallen behind in the inflation fight and an aggressive period of rate increases is needed to squeeze inflation out of the system. The current inflation environment is not excessive, however, so there is no case to be made for the aggressive increases that would threaten economic growth. This is a unique period in which the U.S. Treasury curve initially steepened when short-term rates were cut to near zero. The curve then flattened in stages as the FED used its balance sheet to influence rates in QE1, QE2, and Operation Twist. This flattening has further increased as the FED has moved to normalize rates but pressure should be reduced as the FED unwinds their balance sheet.

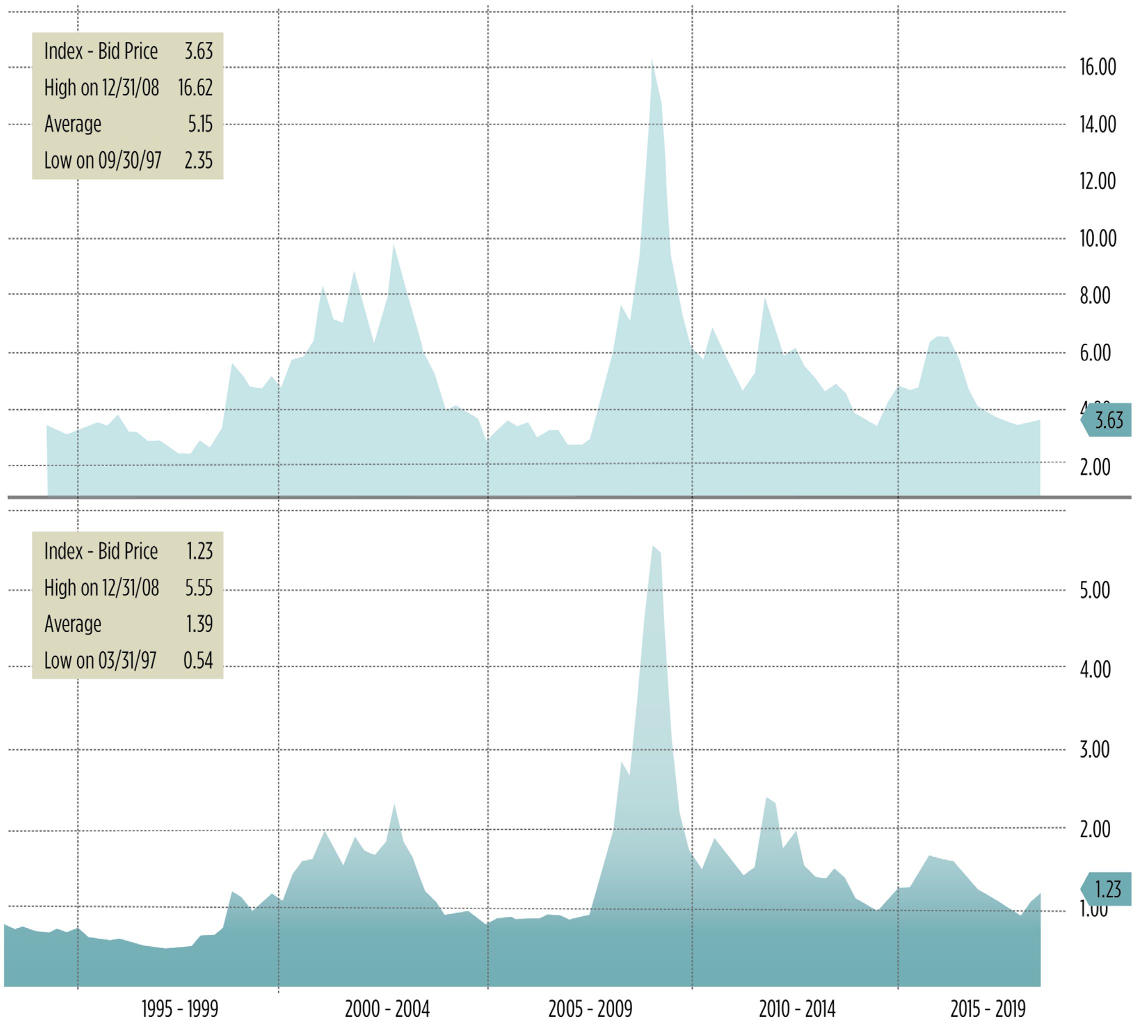
Rates and credit markets will be influenced by data releases, DC headlines, a stronger U.S. dollar, and the global ramifications of trade policies. U.S. growth should be able to counter these headwinds for the rest of 2018. Into the new year, it remains to be seen what other trade tariffs will be levied and how they will impact domestic activity.

Credit markets will be driven by supply and demand as long as rates continue to increase gradually and economic growth remains supportive of corporate earnings. Merger activity is a wildcard which may cause a hiccup in the market if the deal sizes again become too large for the market to easily digest. This would repeat previously observed spread widening as dealers seek levels that bring buyers in to take excess inventory off their balance sheets.

CFI is positioned 0.30 years shorter than BBIC while maintaining a 24 basis point yield advantage and 35 basis points of additional OAS. The flat shape of the U.S. Treasury curve poses a slight headwind as it continues to be directional: in an upward moving yield environment (U.S. Treasury sell-off) the curve steepens while in a U.S. Treasury market rally (downward moving yield environment) the curve flattens. Intermediate credit performs better in a steepening environment. Valuations remain compelling within the market for total return potential as current spreads of 363 basis points for HY and 123 basis points for IG are near pre-crisis levels but remain above long-term lows of 233 and 54 basis points respectively.

JAG will continue to increase its yield advantage in CFI as yields increase with FED rate actions. Through identifying attractive investing opportunities across asset classes and sectors in the marketplace JAG stays focused on a value-driven and client-focused approach to fixed income investing.

Bloomberg Barclays High Yield Option Adjusted Spread (OAS)
Bloomberg Barclays Investment Grade Option Adjusted Spread (OAS)



Source: Bloomberg, JAG Capital Management

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PERFORMANCE ATTRIBUTION: 2Q 2018

Top Performing Sectors by Allocation Effect

Sector	Allocation Effect (bps)	Average Active Weight	Relative Return
Other Financial	0.86	+2.37%	+1.68%
Energy	0.60	+4.07%	+0.53%
Basic Industry	0.39	-1.88%	-0.55%

Bottom Performing Sectors by Allocation Effect

Sector	Allocation Effect (bps)	Average Active Weight	Relative Return
Communications	-2.05	+6.95%	0.70%
Broker/Asset Mgr/Exch	-0.45	+9.74%	-0.89%
Technology	-0.41	-6.75%	-0.37%

Top Performing Sectors by Selection Effect

Sector	Selection Effect (bps)	Average Active Weight	Relative Return
Communications	7.72	+6.95%	+0.70%
Energy	5.76	+4.07%	+0.53%
Insurance	4.89	+3.97%	+0.55%

Bottom Performing Sectors by Selection Effect

Sector	Selection Effect (bps)	Average Active Weight	Relative Return
Broker/Asset Mgr/Exch	-8.60	+9.74%	-0.89%
Electric Utility	-6.59	-1.73%	-2.77%
Consumer Non-Cyclical	-2.71	-4.76%	-0.21%

Top Performing Sectors by Relative Contribution to Return

Sector	Relative Contribution to Return (bps)	Average Active Weight	Relative Return
Communications	+6.63	+6.95%	+0.70%
Energy	+6.49	+4.07%	+0.53%
Banking	+4.02	-13.48%	+0.21%

Bottom Performing Sectors by Relative Contribution to Return

Sector	Relative Contribution to Return (bps)	Average Active Weight	Relative Return
Broker/Asset Mgr/Exch	-11.84	+9.74%	-0.89%
Electric Utility	-6.73	-1.73%	-2.77%
Basic Industry	-1.23	-1.88%	-0.55%

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Top 5 Contributors

Security	% Return	Contribution (bps)	% Average Weight	Reasoning
CNX Resources Corp (CNX B3/BB-) Sr Unsecured Notes 5.875% Due 4/15/22	+1.34%	+4	2.81%	CNX selling joint venture assets as bonds trade with oil prices and high yield sector. Issue spread tighter by 23 bps net as price -0.375 pts net with volatility spikes. Income return +145 bps / Price Return -11 bps.
Level 3 Financing Inc (LVLT Ba3/BB/BB) Sr Unsecured Notes 5.375% Due 5/01/25	+1.50%	+4	2.41%	Revenue +3.8% with increased cash flow. Issue spread tighter by 50 bps net as price +0.75 pts net with volatility spikes. Income return +137 bps / Price Return +13 bps.
Kennametal Inc. (KMT Baa3/BBB-/BBB) Sr Unsecured Notes 2.650% Due 11/01/19	1.51%	+3	2.26%	Kennametal posts good earnings on margin expansion and announces call for entire issue at 100. Issue has 18 mos to maturity and was lagging before called. At time of call market price was approximately 99.375. Issue price +0.75 pts in June. Income return +67 bps / Price Return +84 bps.
Icahn Enterprises LP (IEP Ba3/BB+) Sr Unsecured Notes 6.250% Due 2/01/22	+1.62%	+3	2.43%	Icahn sells Federal Mogul to Tenneco for $5B while receiving more favorable press on activist investments. Issue spread tighter by 44 bps net as price +0.25 pts net. Income return +151 bps / Price Return +11 bps.
Newfield Exploration Co (NFX Ba2/BB+/BB+) Sr Unsecured Notes 5.625%% Due 7/01/24	+1.20%	+3	2.56%	Newfield posts +38% revenue growth on increased production and oil prices in STACK region of OK. Issue spreads tighter by 38 bps net with price -0.50 pt. Income return +131 bps / Price return -11 bps.

Bottom 5 Contributors

Security	% Return	Contribution (bps)	% Average Weight	Reasoning
Jefferies Group LLC (JEF Baa3/BBB-/BBB-) Sr Unsecured Notes 4.850% Due 1/15/27	-3.62%	-11	2.96%	Restructuring by selling beef and auto dealer assets to focus on financial services with name change to Jefferies Financial Group from Leucadia resulting in uncertainty on business plan. Issue widens by 66 bps net as price -5 pts. Income return +118 bps / Price Return -480 bps.
Pacific Gas & Electric (PCG A3/BBB/A-) Sr Unsecured Notes 3.750% Due 2/15/24	-2.87%	-7	2.48%	Wildfire liability overhang causing spread volatility. Issue widens by 75 bps net as price -4 pts. Income return +93 bps / Price Return -380 bps.
Kraft Heinz Foods Co. (KHC Baa3/BBB/BBB-) Sr Unsecured Notes 3.000% Due 6/01/26	-1.54%	-4	2.45%	Company mentioned in all food group M&A, most recently as potential buyer of Campbell Soup which keeps spreads under pressure. Issue spread wider by 26 bps net as price -2.25 pts. Income return +81 bps / Price return -235 bps.
Owens Corning (OC Ba1/BBB/BBB-) Sr Unsecured Notes 4.200% Due 12/15/22	-1.30%	-3	2.49%	Company expects lower replace/repair volume as less storm damage this year while attempting price increases. Issue spread wider by 46 bps net as price -2.5 pts. Income return +102 bps / Price return -231 bps.
Sherwin-Williams (SHW Baa3/BBB/BBB) Sr Unsecured Notes 3.450% Due 6/01/27	-0.87%	-2	0.62%	Company continues to integrate the Valspar acquisition while facing some raw material cost inflation. Issue spread wider by 6 bps net as price -2 pts. Income return +23 bps / Price Return -110 bps.

ACTIVITY: 2Q 2018

Buys

Security	Motive
Charter Comm Operating LLC/Charter Comm Holdings Capital (CHTR B1/BB/BB+) Sr Unsecured Notes 5.125% Due 2/15/23	Buy at 4.823% Yield-to-Worst (YTW) +220/3YR / add 9 bps to portfolio yield.
Campbell Soup Company (CPB Baa2/BBB) Sr Unsecured Notes 3.650% Due 3/15/23	Buy at 3.822% YTW / +100/5YR / add 4 bps to portfolio yield.

Sells

Security	Motive
L-3 Communications Corporation Senior Unsecured Notes 4.750% Due 07-15-20	Entire issue called by company at $104.092 +25 bps to US Treasury 2.50% 5/31/20 (not active sale by JAG).
Nokia OYJ Senior Unsecured Notes 5.375% Due 05-15-19	Sell short maturity issue (13 mos to maturity) at 3.183% YTW / +80/2YR to extend maturity for yield pick-up.
Sherwin-Williams Company Senior Unsecured Notes 3.450% Due 06-01-27	Sell lagging performer at 4.147% YTW +117/10YR for better opportunities.
Verizon Communications Senior Unsecured Notes 3.500% Due 11-01-21	Company tenders for multiple issues at attractive spread levels. +45 4bps to US Treasury 2.625% 5/15/21 (not active sale by JAG).

Disclosures

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