JAG
CAPITAL MANAGEMENT LLC

QUARTERLY COMMENTARY
1st Quarter 2018

Large Cap Growth

*Performance	1Q	YTD
Pure Gross	3.62%	3.62%
Net	3.06%	3.06%
Russell 1000 Growth	1.42%	1.42%
S&P 500 TR	-0.76%	-0.76%

PERFORMANCE REVIEW

Market volatility has returned from an extended vacation, resulting in a roughly 10% correction for the S&P 500 since its January high and a -0.8% decline for the 1st quarter of 2018. This was the index's first 10% correction in two years, and it broke a streak of nine consecutive quarterly gains dating back to the 3rd quarter of 2015.

For context, we should note that last year's equity market performance was unusual for both its strength and smoothness. The S&P 500 returned 21.8% in 2017, delivering its best year since 2013 and its third-biggest yearly gain since the end of the 2008-2009 financial crisis. Meanwhile, the index experienced only eight daily price moves of at least 1% throughout the entirety of last year, the fewest since 1972. By way of comparison, in all calendar years since 1950, the index has experienced an average of 50 daily swings of at least 1% (up or down) and eleven single-day moves of at least 2%.

So far in 2018, stock investors have been subjected to a more turbulent ride. Just through the first week of April, the S&P 500 had already experienced 27 daily moves of at least 1% and eight daily moves of 2% or more. While there is some truth to the old tongue-in-cheek Wall Street adage that proclaims, "Everyone can accept unlimited (upside) volatility," we humans tend to greatly dislike downside volatility. In fact, as first described in 1979 by Nobel Prize-winning economist Daniel Kahneman and his colleague Amos Tversky, the behavioral principle of Loss Aversion compels us to abhor losses roughly twice as much as we enjoy the equivalent amount of gains. This is probably a big part of the reason investor sentiment became noticeably more muted throughout the 1st quarter.

Our Large Cap Growth strategy performed relatively well compared to the Russell 1000 Growth Index last quarter. Most of the quarterly outperformance stemmed from positive stock selection, but our sector allocations also proved to be helpful. We did particularly well with our positions in the Health Care, Consumer Discretionary, and Technology sectors. Meanwhile, our holdings in the Materials, Consumer Staples, and Industrials sectors lagged modestly.

Our single worst portfolio contributor during the 1st quarter was Thor Industries (THO), which we had owned since the summer of 2017. Guided by our rigorous sell discipline, we liquidated our position in Thor at average prices near $120 (representing a modest gain over our average cost). Although we continue to admire the company's product slate, industry position, and long-term prospects, we believe that earnings may be peaking for this cycle. Furthermore, we are concerned about the potential impacts of tariffs on Thor's input costs and margins.

Late in the quarter, we also eliminated our position in Facebook (FB) at prices in the mid-$170's. We think it is likely that the recent revelations of extensive user data misappropriation by Cambridge Analytica will not be the last unpleasant disclosure from the company. Despite the "#deleteFacebook" movement, we do not expect a material short-term exodus by users from Facebook's platform – even if the company is forced to disclose more cases of unauthorized mining of user data. Rather, we think it is becoming increasingly likely that the company will feel compelled to alter its user agreement and interface to allow individuals to more easily "opt out" of sharing their data. Given a simple and

*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 1Q '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.

transparent option to protect their data, we suspect many users would elect to do so. This could have the effect of reducing the price advertisers are willing to pay to access Facebook's vast user audience, which in turn could compress the company's margins and lower its growth rate. We will watch this situation closely, but we are sideline observers for now.

Our portfolio's top three contributors last quarter were Netflix (NFLX), Amazon (AMZN), and Adobe (ADBE). We continue to like each of these positions. Netflix is building a global, subscription-based media content platform and is a prime beneficiary of the secular trend away from cable and satellite providers. Our current position in Amazon was established in mid-2015. Perhaps the most fanatically customer-focused company in modern history, we see a long runway of growth ahead for them in online retail and cloud computing (through Amazon Web Services). We have owned Adobe for almost two years. Their content creation software is used by marketing, production, and design professionals worldwide, and the company has successfully monetized tools that measure the effectiveness of digital advertising and market analytics.

MARKET OUTLOOK

After a notably topsy-turvy start to the year, no one knows for certain where stocks will trade over the remainder of 2018. But as John Maynard Keynes once said, "It is better to be roughly right than precisely wrong." In our opinion, it is "roughly right" to remain constructive on stocks in early 2018.

We note that despite the current correction in stock prices, corporate earnings projections have continued to climb over the past several months. According to Thomson Reuters, the forward 4-quarter earnings estimate for the S&P 500 rose from $143.34 to $158.12 between year-end 2017 and the end of the 1st quarter of 2018. This implies a forward P/E ratio of roughly 17x, which maps out to an earnings yield of 5.9%. Because stock prices have fallen while earnings estimates have risen, both of these valuation ratios compare favorably to where they stood when we published our 4Q 2017 commentary (at that time, the S&P 500's forward P/E ratio was 19x, and its earnings yield was 5.3%). To sum it up, stocks are moderately cheaper than they were a few months ago, economic data remains generally positive, and corporate earnings growth is expected to be quite strong throughout the year. These points, combined with less-euphoric investor sentiment, leaves us feeling mildly more bullish on the broader market than we felt last quarter.

As is always the case, there are a variety of actual and potential headwinds that bear watching. To name just a few of them: President Trump's strong stance on trade policy could result in a damaging trade war with China; The Fed's commitment to tightening could result in a policy mistake that crimps economic growth later in the year; the Facebook imbroglio could spur a wave of politically-inspired regulation directed at large technology companies; and corporate earnings could fall shy of now-high expectations. We will continue watching these and other risks as the year plays out, but we are cautiously optimistic that the worst-case scenarios for each of these areas of concern are unlikely to be realized.

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We believe the current market backdrop represents an attractive state of play for active portfolio managers like JAG. Over much of the post-Crisis period, sector correlations within the market were notably high. In other words, during that period, the equity markets were a "rising tide that lifted all boats." To wit, according to DataTrek Research, sector correlations averaged .81 between 2012 and October 2016. All else being equal, higher correlation between sectors and stocks makes it more difficult for active managers to deliver excess returns. Happily, this changed dramatically in 2017. Average sector correlations collapsed to .50, and a similar "correlation collapse" has occurred at the individual stock level.

This has resulted in greater performance dispersion between sectors and individual securities, which in turn has created more opportunities for active-managed strategies. For those like us who are involved in the business of picking stocks, we are now operating in the most target-rich environment we have seen in years.

With this in mind, the Technology sector remains our favorite hunting ground. This group houses companies that are benefiting from the secular digitization of the global economy, generating strong top and bottom line growth, sport stable and rising margins, and are capitalizing on the opportunity to quickly achieve global scale for their products and services. This is hardly a secret, as the Technology sector has outperformed the broader market for the last 1, 3, 5, and 10 years. And yet we still contend that investors underestimate the group. We note that the Technology sector commands only a 10% premium to the S&P 500 on a forward P/E basis, which compares favorably to both the average 13% premium since 1995, and the 23% premium the sector commanded back in 2007.

We are overweight the Financials sector, which also trades at a discount to its historical average forward P/E multiple versus the S&P 500. Assuming the yield curve does not invert dramatically over the next 12-18 months, bank earnings are likely to benefit from higher net interest margins. Additionally, leading diversified financial institutions like Morgan Stanley (MS) stand to benefit from higher wealth management fees and a pickup in corporate M&A activity.

On the other hand, we are finding it particularly challenging to find attractive growth-oriented ideas in the Consumer Staples and Energy sectors. Both groups have badly lagged the market for several years, and yet they each remain somewhat expensive compared to the broader market. Many Consumer Staples companies are experiencing price and margin pressures stemming from a global shift to online consumption and big-box retailers. Well-recognized consumer brands no longer have the innate pricing power they have enjoyed in decades past. In the internet age, price-conscious consumers can easily discern a product's quality by reading through their peers' product reviews online on any number of retailer websites. To make matters worse, massive retailers like Amazon (AMZN), Costco (COST), and Walmart (WMT) are becoming the dominant players in the retail industry. This has given them the power to demand – and receive – wholesale price concessions on branded everyday items like packaged foods and toiletries.

We have maintained little to no exposure to Energy sector stocks since the summer 2014 crash in oil prices. At the risk of stating the obvious, the revenue and profits of energy companies are closely linked to oil and natural gas prices. Thanks to massive advances in fracking technology over the past five years, the U.S. is now the world's swing producer of oil and is poised to become the world's largest producer of oil as early as 2019. This has effectively de-fanged the five-decade reign of OPEC as the dictator of global energy prices. Today, any material uptick in oil prices would be quickly met by a concomitant increase in U.S. production. Barring a war or an unexpected surge in global demand for fossil fuels – both of which we see as unlikely – we find it difficult to imagine a scenario in which oil prices will be able to sustainably trade to their pre-2014 levels north of $100/barrel. Longer term, given the rise of alternative energy technologies for electricity generation and the global trend toward electric vehicles, we would not be surprised to see global demand for fossil fuels to trend gradually lower.

PERFORMANCE ATTRIBUTION: 1Q 2018

Top Performing Sectors

Sector	Allocation Effect (bps)	Selection Effect (bps)	Total Effect (bps)
Health Care	-2	+135	+133
Consumer Discretionary	-13	+131	+118
Information Technology	+18	+75	+93

Bottom Performing Sectors

Sector	Allocation Effect (bps)	Selection Effect (bps)	Total Effect (bps)
Materials	-14	-47	-61
Consumer Staples	+14	-60	-46
Industrials	+5	-42	-37

Top 5 Contributing Stocks

Company	Symbol	Contribution (bps)	Comments
Netflix	NFLX	+148	Q4 International subscriber growth impressed investors and sent the stock sharply higher.
Amazon	AMZN	+98	Both E-commerce and Web Services results impressed the street.
Adobe	ADBE	+97	Generated 60% EPS growth during Q4 and making progress on becoming beginning-to-end resource for marketers.
Micron Technologies	MU	+87	Both NAND and DRAM markets have been more durable during this cycle than in the past, leading to higher profitability.
NVIDIA	NVDA	+56	Surging demand for GPUs in datacenters, high end gaming PCs, and cryptocurrency mining rigs.

Bottom 5 Contributing Stocks

Company	Symbol	Contribution (bps)	Comments
Thor Industries	THO	-54	Market perceiving that earnings have peaked, which has resulted in multiple compression. Tariffs threaten input costs.
Monster Beverage	MNST	-54	International growth slowed down significantly which resulted in multiple compression.
Take-Two Interactive	TTWO	-35	The popularity of "Battle Royale" games is being perceived as a potential threat to some of Take-Two's titles.
Nucor	NUE	-30	The stock has not yet responded to positive fundamental developments like tariffs and strong Class 8 truck orders.
Coherent	COHR	-27	The market for industrial lasers came under pressure as OLED screens saw less demand than anticipated.

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PORTFOLIO ACTIVITY: 1Q 2018

Buys

Company	Symbol	Comments
Zoetis	ZTS	Zoetis sells into the production and companion animal industries. Their isolation from the US health care industry is an asset in what we think could be a difficult year for the health care sector. We believe Millennials are willing to spend more on their pets than previous generations and see Zoetis as a beneficiary of that trend.
Splunk	SPLK	Splunk is emerging as an invaluable data analysis partner for enterprises of all sizes. We believe as companies realize the importance of indexing and deploying data across their operations, especially in cybersecurity, Splunk will benefit.
Voya Financial	VOYA	Voya sold their underperforming annuity business for approximately $1B. The sale allows the company to be more flexible and will improve growth and profitability metrics.
Microsoft	MSFT	We repurchased Microsoft after their latest earnings report. The company's Azure division put up impessive results and is the leading competitor to Amazon's Web Services division.
Coty	COTY	Coty purchased Procter and Gamble's beauty division last year and we believe management is finally hitting their stride in executing on the deal. We also believe that cosmetics is one of the few areas of retail that is relatively insulated from the "Amazon effect."
Electronic Arts	EA	The stock was under pressure last year after problems emerged in their newest Star Wars title. We believe those issues have been resolved following a strong earnings report that showed impressive results in digital downloads and live services.
Match Group	MTCH	Meeting online and through apps is becoming more common and Match.com's Tinder app is the leader among young people. The company has found a unique way to increase monetization of the app and we believe the online trend will only get stronger.
Nucor	NUE	Nucor is the best positioned steel company to reap benefits from new US tariffs. Upside on pricing would have a significant impact on the company's bottom line.
Vertex Pharmaceuticals	VRTX	Vertex has a dominant market position in drugs for cystic fibrosis, a rare debilitating lung disease. While we are cautious on the pricing environment for most drugs, we think rare disease drugs are relatively insulated from pressure. Vertex faces very little competition and has a very impressive record of successful drug development.
Arista Networks	ANET	Arista Networks' technology is a critical component in cutting edge datacenters, an area that we are bullish on. The company's superior software is helping them take share from legacy vendors like Cisco.
Twilio	TWLO	Twilio enables the backend mobile communications for leading apps like Netflix, Uber, and WhatsApp. They have a new digital call center application that we think will act as a catalyst.
T-Mobile US	TMUS	T-Mobile bought a significant amount of 5G spectrum in last year's spectrum auction and they are gaining traction in the corporate wireless business, a new area for them.

PORTFOLIO ACTIVITY: 1Q 2018

Sells

Symbol	Symbol	Comments
IQVIA Holdings	IQV	Leading up to our sale, IQVIA exhibited declining relative performance. We wanted to shift out of exposure to the biopharma industry, which is facing headwinds that could cause some companies to prioritize higher probability drug trials, thus leading to lower spending with IQVIA.
Live Nation Entertainment	LYV	While the stock was a solid performer, Live Nation was subject to a quick succession of negative events. Several concerts were cancelled due to storms, terror threats, and artist issues. We decided to prioritize opportunities with better fundamental news flow.
Albemarle	ALB	We sold Albemarle on news of increasing capacity in the lithium industry that we think will act as a headwind for the stock. While we like the long term fundamentals, we couldn't justify holding with a deteriorating technical outlook.
Applied Materials	AMAT	The stock was exhibiting technical weakness and was one of our highest risk holdings. We liquidated to provide capital for pursue higher risk-reward ideas.
Coherent	COHR	The market for industrial lasers came under pressure due to less-than-expected demand for OLED screens.
NXP Semiconductors	NXPI	Our original thesis was that Qualcomm would be forced to raise their tender offer to complete an acquisition of NXP. We sold after Qualcomm raised their offer from $110/share to $127.50/share.
Olin	OLN	The stock had a negative reaction to the latest earnings report and broke down technically.
Quanta Services	PWR	Quanta is dealing with margin pressure and large projects have taken longer than we anticipated to be translated into revenue.
Monster Beverage	MNST	Monster's latest earnings report showed a significant slowdown in international sales growth, which was contrary to our investment thesis.
PACCAR	PCAR	The stock was not responding to positive fundamental news and experienced a technical breakdown.
Thor Industries	THO	The stock broke below long term support following an otherwise strong quarterly report. We think earnings have peaked for this cycle, which could result in multiple compression.
Facebook	FB	We believe the fallout from the Cambridge Analytica revelations could have significant long-term implications for Facebook's advertising model.
Trimble	TRMB	Our initial thesis on Trimble, electronic logging devices being installed in trucks, was realized and we saw better opportunities in the Information Technology sector.

Disclosures

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