LATEEF INVESTMENT MANAGEMENT

SECOND QUARTER 2018 COMMENTARY

MULTI-CAP GROWTH EQUITY

The second quarter of 2018 marked Lateef's one-year anniversary of our management buyout and transition to the next generation of leadership. We thank all of our clients for your continued support and commitment over the last year, and we look forward to many more prosperous years together. The purpose of our buyout was to ensure that Lateef is efficient, closely aligned with all of our clients, and in the best position to deliver results going forward. While we endeavor always to find ways to improve, we are confident that our seasoned team of professionals is well positioned to perform on behalf of our clients.

Despite volatile headlines, we believe strong corporate earnings, low unemployment, reasonable market valuation, and robust consumer confidence created a constructive environment for stock appreciation. In the second quarter, the S&P 500 returned 3.43% while the Russell 1000 returned 3.57%, bringing year-to-date returns to 2.65% and 2.85%, respectively. The Lateef Non-Taxable Multi-Cap Growth Equity Composite returned 2.14% (net of fees) in the quarter, bringing year-to-date returns to 3.42% (net of fees).

Be Selective

Although our portfolio's performance in the second quarter was positive, concerns over a potential trade war caused many of our stocks to retreat during the last few weeks of June. While we are monitoring this risk seriously, we also do not want to overreact to headlines. We believe that the fundamentals of our companies will drive positive stock return.

There were, however, many companies in the overall stock market that struggled. For instance, with rising interest rates, low growth, and fair-to-high valuations, consumer staple stocks underperformed the broader market. The S&P 500 Consumer Staples Select Index (IXR) returned -1.4% in the second quarter and -8.2% in the first half of the year.

Another high-profile story from this quarter involved General Electric (GE). After many years of shifting strategic priorities and poor execution, GE was removed from the Dow Jones Industrial Average (DJIA). GE had been a member of the DJIA index for over 100 years. In fact, as recently as 2007, GE was the second largest company in the U.S. by market capitalization.

We've studied GE from various perspectives, including how they compete with our current and former portfolio companies, how they develop leaders, and how they purchase and divest companies. Ultimately, the DJIA's reasons to exclude GE were based on fundamental underpinnings that many active managers already knew – that GE had grown too big to be managed effectively.

There will be many in-depth case studies to learn from GE's history and business practices, but one area that we'd like to highlight is how companies must navigate through business and capital cycles. Companies form from entrepreneurs and their ideas, which develop into business plans. Management teams then iterate on these business plans and battle competition with the prospects of these companies accelerating or declining as they mature. To develop and grow, companies need capital. Success, however, attracts new capital that funds competition that can erode

returns for all participates if there are insufficient barriers to entry.

This cycle is constantly evolving. Over time, we strive to identify companies with characteristics that meet our investment criteria and with whom we think have a high probability of success. We vigilantly watch the competitive dynamics of our portfolio and re-underwrite each investment throughout the year. Our preference is to hold companies for the long term; yet, we are skeptical that companies can grow forever. We actively manage our client's capital by rotating out of successful investments that have reached our estimate of fair value and into new opportunities, especially those that we believe are entering a period of improving business fundamentals.

There is no guarantee that today's leading companies will be the leaders tomorrow. Below is a snapshot of the largest U.S. companies by market capitalization since 2000. Most companies start to fade after they've reached the summit. At Lateef, we're looking for companies that are earlier in their business cycles and climbing to the top.

	2000	Mkt Cap (B)	2002	Mkt Cap (B)	2007	Mkt Cap (B)	2012	Mkt Cap (B)	2017	Mkt Cap (B)
1	General Electric	$ 480	Microsoft	$ 283	Exxon Mobile	$ 512	Apple	$ 484	Apple	$ 870
2	Exxon Mobile	$ 302	General Electric	$ 246	General Electric	$ 376	Exxon Mobile	$ 396	Alphabet	$ 731
3	Pfizer	$ 289	Exxon Mobile	$ 233	Microsoft	$ 337	Alphabet	$ 232	Microsoft	$ 661
4	Cisco Systems	$ 285	Walmart	$ 217	AT&T	$ 255	Walmart	$ 228	Amazon	$ 572
5	Citigroup	$ 258	Pfizer	$ 184	Procter & Gamble	$ 229	Microsoft	$ 227	Facebook	$ 519
6	Microsoft	$ 238	Citigroup	$ 178	Alphabet	$ 219	Berkshire Hathaway	$ 221	Berkshire Hathaway	$ 492
7	Walmart	$ 236	Johnson & Johnson	$ 158	Chevron	$ 198	IBM	$ 218	Johnson & Johnson	$ 378
8	AIG	$ 229	AIG	$ 148	Johnson & Johnson	$ 193	General Electric	$ 217	JP Morgan	$ 374
9	Merck	$ 219	IBM	$ 131	Walmart	$ 191	Chevron	$ 212	Exxon Mobile	$ 356
10	Intel	$ 208	Merck	$ 126	Bank of America	$ 184	Johnson & Johnson	$ 194	Bank of America	$ 310

Source: Bloomberg, Lateef Investment Management

One such example is the development of 5G (5th generation) telecom networks, which we believe is in the early stages of its cycle. 5G has the potential to increase mobile broadband speeds by over 10x and will enable industrial applications, such as autonomous autos, along with new business models in the healthcare, retail, education, and energy sectors.

We started investing in potential beneficiaries of our 5G thesis over a year ago. Our investments include: **Keysight (KEYS)**, a leading electronic test & measurement company; **CommScope (COMM)**, a leading provider of wireless and wireline communication solutions; **FLEX (FLEX)**, a leader in outsourced design & manufacturing for products with embedded technology such as Wi-Fi and sensors; and **Equinix (EQIX)**, a leading data center REIT that specializes in data and network hosting. While the 5G cycle will take a few years to develop and individual stock performance can be volatile in the short term, we are confident that over the next three-to-five years, the wave of investments into 5G will benefit our holdings.

We view Keysight as the "tip of the spear" since network operators and their equipment suppliers must test the various components within networks (semiconductors, antennas, etc.) before actual deployment and commercialization. This is especially important for 5G where operating in the millimeter wave spectrum causes signal propagation issues. Keysight's investments to be the leader in 5G are showing early signs of success. Revenue and operating profit growth continue to exceed our expectations, and 5G order growth has hit double- or triple-digits for each of the past 10 quarters. Keysight is one of our best performers this year, returning 12.7% during the second quarter and 41.9% year-to-date.

Portfolio Activity

As speeds increase for mobile devices, the shift of media consumption to online platforms continues at an accelerating pace. This trend is not new and has rewarded companies like Google and Facebook. Conversely, the valuation of content producers has diminished. We think this trend has reached a tipping point and is motivating many media companies to consolidate. Industry consolidation potentially has several benefits, including larger scale from which companies can extract better pricing, reduced production and distribution costs, and more judicious capital allocation.

One particularly interesting opportunity is **CBS Corp (CBS)**. CBS is a leading broadcast company whose controlling shareholder, the Redstone family, is currently at odds with their longtime CEO, Les Moonves. We believe Mr. Moonves has steered CBS very well. Under his leadership, CBS has consistently produced industry-leading programs and has embraced the changing media landscape. CBS's over-the-top subscription service enables the company to be agnostic as to whether viewers consume content through television or through digital platforms.

Despite CBS's ability to grow revenues and earnings at an attractive rate, the uncertain future for traditional media has caused the company's valuation to decline. As such, the Redstone family is seeking to merge CBS with Viacom, another media company controlled by the family, in order to reap greater scale benefits and cut redundant costs.

During the quarter, Mr. Moonves decided to resist this forced marriage. This predicament punished CBS's stock, falling to below $50 per share from a high of nearly $70 one year ago. At this price, CBS was being valued at less than 10x our estimate of 2019 earnings and free cash flow, an undeserving multiple for what we view to be a high-quality franchise. Our analysis suggests that CBS (as a standalone company) can generate about $2 billion in free cash flow in 2019, earn a mid-teens return on invested capital, and grow earnings at a high single-digit to low double-digit rate over the next three-to-five years.

While we can understand the motivations of both sides, we also understand that, no matter which side wins, CBS is undervalued and this drama has created an attractive entry opportunity. As such, we initiated a position around $50 during the quarter. Since our purchase, AT&T's acquisition of Time Warner was approved, sparking a rally in media stocks, including CBS, on the belief that consolidation will continue. We will be watching these developments closely.

We funded our purchase of CBS with proceeds from the sale of **Canadian Pacific (CP)**. We originally started a position in 2016 under the belief that CP would benefit from upgrading their network, reducing operating costs, and enjoy a pick-up in rail volumes. Much of our thesis has played out and CP's stock price has reflected this. Given the more attractive opportunity set looking forward, we decided to rotate out of CP and into CBS.

Looking Ahead

As we enter the second half of 2018, we are watchful for a potential trade war, expecting sensational rhetoric from the mid-term elections, and anticipating other risks for equity markets. However, we focus most of our time and energy on the individual businesses within our portfolio. We believe our investments are in high-quality companies with strong and improving fundamentals, and are optimistic about our portfolio's potential for continued growth.

Lateef is excited to announce that we have redesigned and updated our website: www.lateef.com. Please visit and let us know your feedback. Additionally, we are currently building out a new office space a short distance from our current location and will be moving at the end of the third quarter. We will send a formal notice to all clients as this approaches and hope to see you in our new space.

Lastly, we would like to thank you, our clients, for your trust in us. We do not take our responsibility lightly and work every day to generate the returns you expect from us. If you have any questions, please contact us at (415) 461-3800. For additional insight into your portfolio, our Q2 2018 Update is available at www.lateef.com.

Sincerely,

Quoc K. Tran
Chief Investment Officer

Eric A. Winterhalter
Chief Operating Officer

~ Celebrating Over 40 Years of Exceptional Results in Investment Management ~

DISCLOSURES

Performance is provided as supplemental information. Performance results reflect all income, gains and losses and the reinvestment of interest and other income. All rates of return are reported "NET" of fees. Additional information regarding the policies for calculating and reporting returns is available upon request. A complete listing and description of all Lateef composites and performance results is available upon request.

The 1-year, 5-year and 10-year net of fees returns of the Non-Taxable Multi-Cap Growth Equity Composite as of June 29, 2018 are 9.87, 9.91 and 9.41 respectively. The 1-year, 5-year and 10-year returns of the S&P 500® Index as of June 29, 2018 are 14.37, 13.42 and 10.17 respectively. The 1-year, 5-year and 10-year returns of the Russell 1000® as of June 29, 2018 are 14.54, 13.37 and 10.20 respectively. 5-year and 10-year performance figures are annualized.

The S&P 500® and Russell 1000® are unmanaged stock market indices and are not available for direct investment. One cannot invest directly in an index. The S&P 500® Index represents the stocks of 500 leading U.S. publicly-traded companies from a broad range of industries. The Russell 1000® Index is an unmanaged index that measures the performance of the largest 1,000 companies in the Russell 3000® Index. This unmanaged index represents the universe of large capitalization stocks from which most active money managers typically select. The performance of an unmanaged index reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets. The volatility of the S&P 500® and Russell 1000® Indices may be greater or less than the volatility of the portfolios in the composite.

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The most recent ADV Part 2 can be found at www.lateef.com or by calling (415) 461-3800.