

PORTFOLIO MANAGERS: DONALD RADTKE & NICHOLAS NEVOLE
FIRST QUARTER 2019

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Tributary Capital Management (Gross of Fees)	13.1%	13.1%	6.2%	10.7%	9.0%	13.1%
Tributary Capital Management (Net of Fees)	13.1%	13.1%	6.1%	10.5%	8.7%	12.6%
S&P 500 Index	13.7%	13.7%	9.5%	13.5%	10.9%	15.9%
Russell 1000 Value Index	11.9%	11.9%	5.7%	10.5%	7.7%	14.5%

MARKET REVIEW

After a dramatic equity selloff to end 2018, the S&P 500 Index posted its best quarter return since 2009 in the first quarter 2019 rebound. In fact, this was the best start to a year for large caps since 1998. Economic data has been somewhat encouraging through the first few months of the year, as it seems growth concerns that fueled the shocking year-end equity downdraft may have been overblown. The stock market recovery has also been bolstered by optimism fueled by the Federal Reserve's decision to back off its hawkish interest rate trajectory and move to the sidelines.

Though equities broadly recovered during the first quarter, earnings estimates for future quarters were trimmed on more cautious company outlook commentary. Current first quarter estimates project a year-over-year earnings decline, and second quarter S&P 500 EPS estimates have recently slipped into negative territory. This looming earnings recession could be a headwind for stocks into mid-year.

From a style perspective, growth stocks once again outperformed value stocks in the quarter, with the Russell 1000 Growth Index returning 16.1%, well above the Russell 1000 Value Index's 11.9% gain. It seems that investors' preference for risk and growth is once again similar to what has been driving the market for the last few years.¹

One reason value indices lagged again was due to their heavy financials exposure. Though the financial sector (+9%) optically posted a nice gain, the group sold off after the Fed announced it would stall its rate hikes. This move diminishes prospects for an earnings boost from a rising rate environment.¹

Defensive sectors such as healthcare (+7%) and utilities (+11%) also lagged after acting as relative safe havens during the late 2018 downdraft. Economically sensitive industries rebounded strongly this quarter, with a mix of growth sectors (technology +20% and consumer discretionary +16%) and value sectors (industrials +17% and energy +16%) leading the way.¹

The Large Cap Value strategy gained 13.1% in the first quarter, just under the S&P 500 benchmark's 13.7% return. The strategy's cash balance grew during the quarter due to some portfolio moves and accounted for a 0.5% return drag, which was equivalent to this quarter's underperformance.¹

The strategy's strongest relative performance occurred in the healthcare (+12% vs. +7% for the benchmark), consumer

staples (+15% vs. +12%) and materials (+20% vs. +10%) sectors. Laggards versus the benchmark were financials (+5% vs. +9%), consumer discretionary (+11% vs. +16%) and technology (+18% vs. +20%) holdings.¹

TOP CONTRIBUTORS

Microsoft had a solid earnings report that once again highlighted cloud strength and business application growth.

Perkin Elmer posted double digit diagnostics revenue growth and good margin improvement, raising expectations for the year.

Apple shares rebounded nicely after uncertainty in early January caution surrounding iPhone shipments. Services continue to be Apple's current and future growth avenue.

Accenture revenues keep exceeding expectations due to strength in digital, cloud and security offerings, which combine to account for over 60% of revenue.

Cisco reported solid growth as new product line adoption is in the early stages.

TOP DETRACTORS

Markel shares dipped on a write down of the goodwill for the 2015 acquisition of an insurance-linked securities business as significant loss reserve increases triggered regulatory inquiries and associated investor outflows.

Pfizer shares were flattish during the quarter after drug stocks outperformed during the end of year equity sell off.

Berkshire Hathaway share repurchases were disappointingly smaller than expected and issues at Kraft Heinz also weighed on shares.

Medtronic shares lagged after slightly lowered guidance due to softer Cardiac & Vascular trends.

Allergan weakened on multiple concerns. The holding was eliminated during the quarter.

PORTFOLIO CHANGES

There was one addition to the strategy this quarter. *Leidos Holdings* is a provider of IT and professional services to the US Government, primarily the Defense Department, and was added to the Technology sector.

Three companies were eliminated from the strategy this quarter. *Celgene Corp.* was sold during the quarter after receiving a takeout bid from Bristol Myers Squibb, which

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seemed adequate given some risks involved with the transaction and other concerns surrounding Celgene. *Allergan plc* is facing increased competition on its largest product, Botox, and there are growing concerns about pipeline drugs. Execution has also been less than stellar, so this position was eliminated for multiple reasons. *Snap-On Inc.* was exited on concerns over the lack of sales progress for the core Tools Group and overall lackluster trends.

PORTFOLIO OUTLOOK

Equity markets have acted in a bipolar manner of late, with prospects for slowing growth pushing stocks down in a dramatic fourth quarter selloff. The start of the year followed with an optimistic recovery fueled, in part, by the Fed's decision back off its hawkish interest rate trajectory and move to the sidelines.

The stock market's recovery doesn't imply that all is well, however. We have observed cuts to earnings estimates, reduced global GDP expectations and a yield curve that inverted during the quarter. Recent speculation about broader EU tariffs is also negative after indications that the U.S. and China have been making progress on a trade agreement.

The U.S. economy is slowing but is underpinned by a number of positive fundamental factors. According to the Bureau of Labor Statistics, employment remains strong across all age groups. Recently, real wages have begun increasing and outpacing

inflation. Nearly 70% of the U.S. economy is driven by personal consumption and a strong consumer can continue to drive broad economic growth. Additionally, mortgage rates are currently hovering near 4%, which should support a housing market that has yet to fully recover.

The S&P 500's 16.4x price/forward 12 month EPS valuation is over a turn above the longer term average, but is also roughly the average of the past five years. Large cap stocks are not cheap, but are not at overly inflated values, either. We believe the high quality companies in our portfolio will be able to grow their intrinsic value over time as the economy continues to expand, and our preference for low leverage will help us protect capital if markets are turbulent. Our search for good companies at attractive valuations continues every day.

¹ Factset Research Systems

The performance numbers shown above are for the Tributary Large Cap Value Equity Composite and are expressed in U.S. dollars. Due to the merger described below, the creation date of Tributary's Large Cap Value Equity Composite is Jan 1, 2005. The composite includes all discretionary accounts with an initial market value of \$750,000 that are generally invested in a large capitalization value equity strategy. The inception date of the Large Cap Value Equity Composite is March 31, 1985. The Standard & Poor's 500 is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the stock market as a whole. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. It is not possible to invest directly in the S&P 500, Russell 1000 Index, the Russell 1000 Value Index, or the Russell 1000 Growth Index.

Net-of-fees composite returns were calculated using the actual aggregate investment advisory fees applicable to portfolios within the composite. Net performance is reported net of investment advisory fees and transaction costs. Capital gains and dividends are reinvested for performance calculations.

It should not be assumed that an investment in securities identified was or will be profitable or that the investment decisions we make in the future will be profitable or will equal the performance of the securities discussed herein. Holdings are subject to change. The holdings identified do not represent all of the securities purchased, sold or recommended for the portfolio. The holdings listed should not be considered recommendations to purchase or sell a particular security. The "Top Contributors" and "Top Detractors" represented are based on contribution to portfolio return. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the quarter, please contact clientservices@tributarycapital.com. Sector performance in commentary is stated gross of fees.

Tributary, an SEC Registered Investment Adviser, is the combined entity of the prior Tributary (formed Jan. 1, 2005) and First Investment Group (formerly a department of First National Bank of Omaha) which merged in May 2010. This event constituted a change in ownership only, as the investment strategies and personnel remained the same for each of the prior firms. Tributary is a wholly owned subsidiary of First National Bank, a wholly owned subsidiary of First National of Nebraska, Inc. and manages mutual funds and equity and balanced portfolios. Tributary Capital Management, LLC ("Tributary") claims compliance with the Global Investment Performance Standards (GIPS®). A fully compliant presentation can be requested by emailing clientservices@tributarycapital.com.

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