Key Takeaways

- The equity market broadened beyond mega cap technology stocks during the month, benefiting the portfolio.
- Further gains in crude oil prices failed to support energy stocks, however we continue to like the position of our E&P and oil services holdings.
- We believe catalysts are emerging that will enable the value of our portfolio companies to be realized.

Market Overview and Outlook

U.S. equities touched new all-time highs in November, with the S&P 500 Index advancing 3.07%, the broad market Russell 3000 Index adding 3.04% and the small cap Russell 2000 Index gaining 2.88%. Growth and value stocks performed in line, snapping a long streak of outperformance by the Russell 3000 Growth Index.

An improving outlook for tax reform on Capitol Hill sparked a strong rally across U.S. markets late in the month. Consumer staples (+5.93%) was the best performer in the portfolio’s benchmark while information technology (+0.66%) – by far the leading sector through the year – was a laggard.

While encouraged by the broadening of market leadership beyond mega cap technology and Internet companies, the performance of several of the portfolio’s cyclical technology holdings during the month disappointed. Autodesk, which had risen more than 70% for the year through late November, re-rated lower despite third-quarter results that beat expectations after management issued weaker guidance as the company shifts to a subscription model. Western Digital, meanwhile, sold off on weakness in flash memory pricing. As we have discussed previously, Western and Seagate Technology face limited competition in the market for flash and hard disk drives and are making progress in delivering higher-margin cloud storage products. We believe these benefits are not properly reflected in current stock valuations.

Crude oil rose another 5.5% during the month to $57.40 per barrel as OPEC announced an extension of its production cuts through the end of 2018, however energy (+0.48%) continued to underperform. We remain confident in the ability of our energy holdings to manage their balance sheets and costs effectively should oil prices remain range bound.

We are contrarian growth managers and hold a portfolio of companies with a low correlation to our benchmark. This divergence has been a headwind in the current momentum-driven growth market, but we believe catalysts are emerging – such as
increased M&A across media and the other sectors we target as well as greater innovation in health care – that will enable the value of our portfolio companies to be realized. We also pay attention to levels of bullishness or bearishness tracked by investor sentiment surveys and have recently seen rising pessimism, which is a positive signal that stocks can continue to climb.

**Portfolio Highlights**

The Aggressive Growth Strategy underperformed its Russell 3000 Growth Index benchmark during November. On an absolute basis, the Strategy had gains in six of the eight sectors in which it was invested (out of 11 sectors total). The main contributor to performance was the health care sector.

Relative to the benchmark, overall stock selection detracted from performance. In particular, stock selection in the consumer discretionary, industrials and energy sectors, an overweight to energy and an underweight to industrials hurt results. An underweight allocation to IT, meanwhile, had a positive impact on relative returns.

On an individual stock basis, positions in Autodesk, Western Digital, Johnson Controls International, Anadarko Petroleum and Bioverativ were the greatest detractors from absolute returns during the month. The largest contributors to absolute returns included UnitedHealth Group, Broadcom, Biogen, Comcast and L3 Technologies.