Munder Mid-Capitalization Core Growth Strategy Quarterly Commentary

MUNDER Capital Management®

As of September 30, 2019

3Q 2019 MARKET REVIEW

Slowing Growth Pressures Rates and Limits Stock Market Returns

The third quarter's 0.48% total return put the Russell Midcap® Index up 21.93% for the year; the Russell Top 200® Index returned 1.78% for the quarter and is up 20.01% year-to-date, while the Russell 2000® Index declined 2.40% and is up 14.18% for the year. U.S. markets and the dollar continue to outperform relevant international alternatives as investors try to reconcile slowing global growth and an industrial/manufacturing recession with increasingly dovish global monetary policy and resilient job creation/consumer spending in the U.S.

Indeed, in September we saw a very powerful rotation out of growth and momentum and into value factors, including some inexpensive cyclical stocks. This contrasts greatly with the growth-led market that we've experienced the last two years, which has largely been driven by negative earners and/or very high valuation stocks.

Our philosophy is built on the premise that we can construct a portfolio of high-quality, reasonably priced stocks that also offer good growth, and that over any reasonable time frame this type of portfolio will outperform the market. The last couple years have been unique in that the market is seemingly saying the opposite; i.e., that high valuation names are underpriced and/or that high valuation is a good predictor of future returns, a belief we think is in direct contradiction to the 30+ years of stock market history we have experienced. Our philosophy to minimize valuation risk has served us well over time, and we believe it will continue to be prudent over the long term. We remain confident that a stock's price ultimately reverts to intrinsic value, which is determined not only by growth but also by profitability and risk, and when it does our valuation discipline and quality bias will ultimately pay off.

ATTRIBUTION

Stock Selection Positive Against Both Benchmarks

The Munder Mid-Capitalization Core Growth Strategy generated a -0.05% total return (Gross) for the third quarter, with gains in Real Estate, Utilities, Materials, Health Care, and Communication Services offset by declines in Consumer Staples, Energy, Industrials, Technology, Financials, and Consumer Discretionary. The Strategy generated positive stock selection against both the Russell Midcap® Index (the Core Index) and the Russell Midcap® Growth Index (the Growth Index). Sector allocation and style factors (underweight defensive sectors, higher exposure to growth and momentum) detracted from relative returns against the Core Index, but represented a modest tailwind vs. the Growth Index (overweight defensive sectors, but style factors neutral). Importantly, we believe the strong rotation in September out of growth and momentum and into value and, more importantly for the Strategy, out of hyper-growth/high-valuation stocks represents a leadership change in the market that is generally positive for our "growth at a reasonable price" philosophy, particularly vs. our Growth peers/benchmark.

Stock Selection Strong in Health Care, Materials, and Real Estate

Health Care was the second worst performing sector behind Energy in both indices, with the sector impacted by both the rotation away from high-growth/high-valuation names as well as ongoing regulatory concerns heading into the 2020 election (e.g., Medicare for all, greater drug pricing controls). The majority of the Strategy's holdings outperformed this quarter, led by top contributor Edwards Lifesciences, a medical device company with products that address heart valve disease, cardiac surgery, and critical care. The company reported a strong beat-and-raise quarter, with broad-based strength across geographies driven by strength in its transcatheter aortic valve replacement (TAVR) product. Recent favorable data for TAVR is driving growth, and we believe this momentum can continue with new FDA approval for low surgical risk patients and the introduction of new products.

The Materials sector was down slightly in the Core Index, but up mid-single-digits in the Growth Index, which has limited exposure to metals & mining, where weakness was pronounced due to weakening global growth and tariffs. For the Strategy, Vulcan Materials, the largest producer of aggregates in the U.S. (concentrated in the Southern states) as well as a producer of asphalt and ready-mix concrete, was a top performer. Vulcan reported solid 2Q results with solid volumes, pricing, and profitability despite weather-related issues. With its domestic focus, roughly half the business tied to infrastructure spending that is beginning to ramp (e.g., California, Texas), and favorable weather conditions in 3Q, shares continue to march higher as investors incorporate the better backdrop against conservative guidance.

Real Estate was the top performing sector within both indices, benefiting from the rotation out of growth and into value factors (specifically dividend yield, where lower rates increase the attractiveness of bond proxies). CyrusOne, an owner/operator of carrier-neutral datacenters and provider of colocation services in the U.S. and Europe, was the Strategy's top performer. The company reported solid 2Q results and raised full-year earnings growth guidance, as well as providing positive commentary on growth and funding for the next several years. In addition, it was later reported in the press that the company was exploring a sale of the company after it received takeover interest from a group of investors including private equity firm KKR & Co. We continue to believe the company possesses one of the best growth/value profiles within the sector, and think any take-out price would be well above $80 per share.

Industrials, Technology, and Consumer Discretionary Disappoint

The Industrials sector was up low-single-digits in both indices, with strength in services, road & rail, and aerospace & defense (A&D) offset by weakness in airlines and capital goods (ex-A&D). For the Strategy, selection was challenged within capital goods, including two of our defense positions, Kratos Defense & Security Solutions and HEICO Corporation, which had been really strong performers to date, and whose strong growth profiles and higher valuations made them vulnerable during the September market rotation. Kratos, a national security technology provider with proprietary expertise in the area of unmanned aerial vehicles, electronics for missile defense systems, electronic warfare systems, and satellite control and management systems, also saw weakness after lowering second-half guidance due to the delay of several large deals. Importantly, bookings remained solid for the quarter at 1.1x book-to-bill, and the company's strong backlog and pipeline support accelerating growth into 2020, leaving our multi-year, multi-program, strong long-term growth thesis intact. Specifically, Kratos' unmanned product set is a major point of emphasis for the U.S. Department of Defense, and the company is dominant in its part of the market, with several new growth programs supporting 20%+ growth for the next several years.

The Technology sector was down less than 1% in both indices this quarter, with outsized strength in semiconductor capital equipment as well as good performance in distributors and data processing/outsourcing, offset by declines in internet, consulting, and software. For the Strategy, negative stock selection was in large part due to our lack of exposure to semi-cap equipment, which was up nearly 25% this quarter despite the cyclical nature of the industry, as well as our higher exposure to growth factors vs. the Core Index. Outside of this, stock selection was balanced, with contributions from our strong performers (Fiserv, CDW) offset by a few disappointments (PTC Inc., SS&C).

The Consumer Discretionary sector was down ~2% in both indices this quarter, with mixed industry performance, but notable outsized strength in housing-related industries. For the Strategy, stock selection was negative in large part due to our holdings in specialty retailer Ulta Beauty. The company reported slightly disappointing results and took down full-year guidance, which contrasts greatly with the beat-and-raise pattern investors had become accustomed to. Importantly, we exited our position and repositioned into homebuilder D.R. Horton, which we think is uniquely positioned to benefit from an improving housing market (aided by a strong job market, strong household formations, and lower interest rates) and high demand for affordable, quality, entry-level/first-time product that builders have largely neglected this cycle.

The Munder Mid-Capitalization Core Growth Strategy's focus is to invest in mid-cap stocks that have superior growth prospects and reasonable valuations. We believe this combination of fundamental strength and attractive valuation positions the Strategy for strong competitive performance. These characteristics have historically contributed to the Strategy's successful long-term record, and we are confident they will continue to serve our investors well.

Top 5 Contributors (% Rep. Account)	
CyrusOne, Inc.	0.34
Edwards Lifesciences Corporation	0.33
L3Harris Technologies Inc	0.32
Dollar General Corporation	0.31
CDW Corp.	0.21
Top 5 Detractors (% Rep. Account)	
Ulta Beauty Inc	-0.58
Tractor Supply Company	-0.26
PTC Inc.	-0.25
Grand Canyon Education, Inc.	-0.23
ABIOMED, Inc.	-0.18

Source: FactSet.

Top 10 Holdings (Rep. Account)	Sector
Fiserv, Inc.	Information Technology
SBA Communications Corp. Class A	Real Estate
L3Harris Technologies Inc	Industrials
CDW Corp.	Information Technology
Zoetis, Inc. Class A	Health Care
Edwards Lifesciences Corporation	Health Care
Dollar General Corporation	Consumer Discretionary
Live Nation Entertainment, Inc.	Communication Services
Baxter International Inc.	Health Care
Advanced Micro Devices, Inc.	Information Technology
Total % of Portfolio	**22.69%**

				ANNUALIZED RETURNS			
Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
Munder Mid-Capitalization Core Growth Composite (Gross)	-0.05	21.92	1.30	11.27	8.28	12.80	11.47
Munder Mid-Capitalization Core Growth Composite (Net)	-0.29	21.17	0.40	10.24	7.29	11.87	10.65
Russell Midcap® Index	0.48	21.93	3.19	10.69	9.10	13.07	9.19
Russell Midcap® Growth Index	-0.67	25.23	5.20	14.50	11.12	14.08	8.09

Source: Zephyr.
*Since inception results are as of January 1, 1999.

Past performance cannot guarantee future results. Investing involves risk, including the possible loss of principal and fluctuation of value. Returns greater than one year are annualized. Returns are expressed in U.S. dollars. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. The composite net-of-fees returns shown reflect gross performance less actual investment management fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part II of its Form ADV.

The Munder Mid-Capitalization Core Growth Composite includes all fee-paying, non-wrap discretionary portfolios of $100,000 or more that are managed according to the Munder Mid-Capitalization Core Growth strategy. The strategy focuses on mid-sized companies that we believe are high-quality companies with the potential for higher than average earnings growth and high consistency in earnings.

Characteristics, Top Ten Holdings and Sector Diversification source: FactSet Research Systems, Inc. The top ten holdings and sector diversification are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

Holdings are as of quarter end and may change at any time. This material should not be construed as a recommendation to buy or sell any security.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

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