Global Outlook & Market Upate

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At the height of this eight-year bull market, we are trying to reconcile the notion that the markets and the global economy may be "as good as it gets" with the potential that as a result of technological change, increased market volatility and the strength of the Chautauqua Capital team, "the best may be yet to come."

Chautauqua Capital's approach is to identify trends and companies that as a result of their business model advantage, benefit disproportionately from these trends. In some periods, the trends evolve more slowly than we had anticipated or the company's ability to translate better business conditions into more rapid profits growth is delayed as they reinvest in their advantage to maximize its potential. In some cases, the fundamentals unfold beautifully but the markets do not seem to care. In the fourth quarter and for much of 2017, several trends accelerated faster, the companies we invested in realized their expected potential and the markets recognized the enhanced underlying value. We caution that what we experienced in 2017 will not always be possible. We do believe that our approach is the very best way to achieve capital appreciation but optimally, in order to capture the benefit of our skill and approach, investments should be made for a multiyear period.

MARKET UPDATE

During the quarter, growth style outperformed value style in the MSCI, emerging and U.S. markets. Large capitalization stocks outperformed small capitalization stocks, except in the MSCI EAFE and Emerging Markets Indices®.

Performance by country, in which the funds were invested and as measured by MSCI, is as follows: Brazil -1.87%, Canada 4.46%, China 7.62%, Denmark 2.25%, France 1.60%, Germany 2.78%, Hong Kong 6.58%, India 11.82%, Ireland 3.47%, Italy -2.27%, Japan 8.52%, Korea 11.64%, Netherlands 0.88%, Singapore 10.10%, South Africa 21.46%, Spain -1.45%, Switzerland 1.78%, Taiwan 4.03%, U.K. 5.74% and U.S. 6.55%. Overall, emerging markets outperformed developed markets for the quarter.

Economically sensitive sectors outperformed defensive sectors in the fourth quarter:

MSCI Sector Performances (as of 12/31/2017)

Sector	QTD Performance
Information Technology	8.18%
Materials	8.01%
Consumer Discretionary	7.83%
Energy	6.99%
Financials	6.15%
Consumer Staples	6.01%
Industrials	5.26%
Real Estate	4.44%
Telecommunications Services	2.17%
Health Care	1.34%
Utilities	-0.10%

It was a quarter filled with notable events. The quarter began with Chancellor Angela Merkel, fresh off her fourth term victory, having to scramble to create a coalition in the Bundestag after the radical right wing "Alternative for Germany" party took a surprise 13% of the vote to finish third. The matter remains unresolved and negotiations will probably continue in January. Xi Jinping consolidated his power after being re-elected Communist Party Secretary General at the every-five-year Party National Congress. He now has the most influence and unchecked power since Mao Zedong. We expect that China's growth will slow but the risk of a hard, debt-driven landing will diminish due to the pace of reform. In other words, it will be slower but higher-quality growth. In October, Japan's Prime Minister, Shinzo Abe, strengthened his "Liberal Democratic Party's" position with snap elections. Multiyear stimulus seems to finally be fueling inflation.

The European Central Bank (ECB) announced that, beginning in January 2018, it will taper its bond buying program from 60 billion euros per month to 30 billion euros per month and likely end the program in September 2018. As was expected, the U.S. Federal Reserve raised the benchmark rate for the third time in 2017 on December 13th to 1.5%. Jerome Powell will likely be confirmed as the next Fed chair in January. The Bank of England was in a difficult position as currency weakness pushed inflation above its target. This necessitated the first rate hike in 10 years. Potential Brexit economic headwinds imply that further increases are not imminent. The South Korea Central Bank raised rates to 1.5%. It was the first rate hike in six years. Despite these reversals in monetary stimulus, with a background of global synchronized growth, improving consumer and business confidence and widespread positive earnings surprise, most markets notched gains around the world. Toward the end of the quarter, the U.S. signed into law a $1.5 trillion tax reduction which included a significant drop in corporate tax rates. Consumer spending has been strong around the globe and with that, consumer debt is on the rise and savings rates have fallen.

During the quarter, India announced a two-year plan to recapitalize its 21 loss-laden government-controlled banks. These banks suffer from excessive nonperforming loans, many stemming from poorly conceived government-sponsored infrastructure projects. The plan involves having the banks issue $11.7 billion of new stock and then loan the proceeds to the government. The government will issue $20.7 billion in bonds and then purchase $32 billion of the troubled banks' stock. This plan will reduce, in percentage terms, the portion of bad debt relative to the banks' equity. However, it will not provide capital to allow the banks to write off bad debt nor give the banks fresh capital with which to issue new loans and thus grow out of their problem. Meanwhile, the independent banks, like HDFC (which is a portfolio holding), are gaining market share.

Geopolitical tensions remained elevated as North Korea continued to demonstrate their ability to carry out a nuclear-weaponized missile strike on the U.S. and some of its allies. The U.S. has pressed the United Nations (UN) for more sanctions. The U.S. also placed more sanctions on Russia and specific Russians and will send more military equipment to the Ukraine. With some high profile indictments and convictions, the special investigation of Russia's attempt to disrupt the 2016 presidential election continues to be a source of news.

In sub-Saharan Africa: 1. Zimbabwe's Robert Mugabe's 37-year rule came to an end; 2. Jacob Zuma has been replaced as the leader of the African National Congress (ANC) in South Africa; and 3. Kenya ultimately elected Uhuru Kenyatta, whose first attempt was nullified by the Kenyan Supreme Court for irregularities.

The Islamic State was routed in Syria and Iraq but jihadists continued to carry out terror attacks in many places around the world. And finally, cryptocurrencies captured a lot of attention as the price of bitcoin (not a portfolio holding) skyrocketed and then sold off.

Despite it all, market volatility remained very low.

OUTLOOK

In reconciling "as good as it gets" with "the best is yet to come," we are struck by how extraordinary this moment in the financial markets really is. After eight years of aggressive monetary accommodation throughout most of the world, central bankers are in various stages of reversing course. This monetary accommodation, though necessary in the early stages of recovery from the great financial recession, became a habit that was hard to break. The result has been low inflation everywhere except in asset prices. The slow but steady economic recovery has taken the U.S. to the point that the nonpartisan Congressional Budget Office (CBO) has deemed the U.S. economy to have surpassed its point of maximum output. In other words, unemployment has fallen to a point that the output gap has closed and from here further growth is likely to be inflationary. As a precursor to inflation, Japan is experiencing labor shortages. Europe still has excess labor but inflation has recently ticked up. Business and consumer confidence has risen and we are now witnessing debt-financed spending activity that has been subdued over the past several years. The indicator of economic health, the Purchasing Managers' Index (PMI), has been rising among commodity-importing and exporting countries. This is unusual and generally not sustainable. Conditions for business may be getting to the point where they are "as good as it gets."

Market valuations, stock and bond alike worldwide, are high relative to their own history. That said, some asset classes are less extended than others. The increased involvement of value-agnostic investors in such things as algorithmic trading strategies, index funds, exchange-traded funds (ETFs) and high-speed trading may make the markets more fragile in the face of an unforeseen catalyst. Market participation, based on historically high-margin debt, the stock market's high total value relative to gross domestic product, investors' low average cash levels and the elevated levels of new brokerage account openings all suggest that this bull market is likely to run out of steam. Conditions for the financial markets may be getting to the point where they are "as good as it gets".

Meanwhile, we believe that we are on the threshold of massive technological disruption and investment opportunity that could mean "the best is yet to come." The confluence of massive minable data, combined with inexpensive computing power due to cloud computing, breakthroughs in machine learning, exponentially faster data transmission speeds and the "internet of things," may lead to momentous gains in productivity and significant opportunities for new entrants to disrupt legacy business models. For a trend-based, best-in-breed growth investor such as Chautauqua Capital, this is very promising.

Owing to our concentrated portfolios and long holding period, we have fewer holdings per person to analyze than most of our competitors. This enables us to know our holdings and watch list ideas better and operate with a six person portfolio management team. As a result, we are very nimble. Our performance record has been good but we believe if the market volatility returns to historic levels, the "best may be yet to come" for us as investors.

In this current environment, we are optimistic but ever vigilant. We have taken precautions that do not preclude us from participating in a rising global stock market. However, we are cautious. We anticipate that the markets could get choppy in 2018. We are ready with a little extra cash to deploy and we have plenty of new names that are fully vetted and ready to buy at an attractive valuation. Historically, high valuations themselves do not precipitate a bear market. They do, however, imply that the distance the market will have to decline to get back to attractive levels is that much further.

Stock prices are primarily the product of a company's earnings and the multiple of those earnings investors are willing to pay. Over the past several years the multiple has expanded. Should the multiples contract, all things being equal, the stock prices will contract. If, however, the earnings are growing faster than the market average the price contraction can be offset. As growth investors, we do pay modest premium multiples for the shares of the great wealth-generating businesses we invest in, yet we are value-conscious and take a comprehensive view of each holding including future growth, profitability and valuation. The combination of insisting upon superior growth while being careful about valuation should help us perform in a challenging market environment.

We have the right investment team as we try to reconcile this "best is yet to come" with "as good as it gets" environment. Indeed, this is a very interesting moment in time to be investing.

ABOUT THE AUTHOR

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Brian Beitner is the Senior Portfolio Manager for the Chautauqua International Growth Strategy and Chautauqua Global Growth Strategy. He formed Chautauqua Capital Management in January 2009. Prior to this, he was a member of the TCW Concentrated Core Equities portfolio management team from 1998, which was responsible for the management of up to $27 billion in assets. In 1999, he was named director of equity research. In 2003, he became a senior equity strategist. In 2005, Mr. Beitner began managing international and global equity portfolios. Prior to working at Trust Company of the West, he worked with Scudder, Stevens and Clark; Bear Stearns & Co.; and Security Pacific Bank in roles including portfolio management, research and trading. He earned a B.S. in public administration and an M.B.A. from the University of Southern California, Los Angeles. He holds a certificate for global investing from INSEAD. He received his CFA charter in 1989.

IMPORTANT DISCLOSURES

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained from your financial advisor and should be read carefully before investing.

Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. Investments in international and emerging markets securities and ADRs include exposure to risks including currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

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