CHARTWELL INVESTMENT PARTNERS

Berwyn Strategies Current Outlook and Investment Strategy

"It is better to remain silent and be thought a fool than to open one's mouth and remove all doubt."
Mark Twain - writer, humorist and lecturer.

Summary

- The bull market continued during the third quarter as the major indices raced towards new all-time highs. Large-cap stocks outperformed small-cap stocks; and the NASDAQ, led by the FAANG stocks (Facebook, Amazon, Apple Inc., Netflix and Google) performed well.

- Immediately following the end of the third quarter, the equity markets experienced a sharp reversal, thought to be precipitated by higher interest rates and trade war concerns. Thus far, the October retreat appears to be a normal correction within the context of a secular bull market.

- Our Individually Managed Accounts (IMA's) underperformed the major indices in the third quarter as value stocks were laggards throughout the three-month period. In October, the FAANG stocks underperformed the broad market, suggesting that a change in leadership could be occurring.

- Our IMAs contain an unprecedented number of unusually low p/e stocks which, in our opinion, are poised to rally in the next market upturn.

Background

The major stock indices experienced a strong advance in the third quarter. The Dow Jones Industrial Average (DJIA), Standard and Poor's 500 Index (S&P 500) and the NASDAQ Composite rose 9.63%, 7.71% and 7.42%, respectively, during the three-month period. Despite the impressive performance of the averages in the third quarter, after a vicious pull back in the month of October, the major averages have relinquished much of their gains for the year. At the time of this writing, the market appears to have made, at least an interim bottom, on October 29th.

October's sharp market decline raises the question as to whether, or not, this nearly decade long bull market is over. Indeed, investors have many concerns. The Federal Reserve Board's (FRB's) programmed increases in the federal funds rate, the outcome of the November elections, China's intransigence in settling our trade dispute, the Mexican border controversy, and our Nation's combative political climate that is unprecedented in our lifetimes, head a much longer list of genuine domestic issues.

S&P 500
July - November 2018

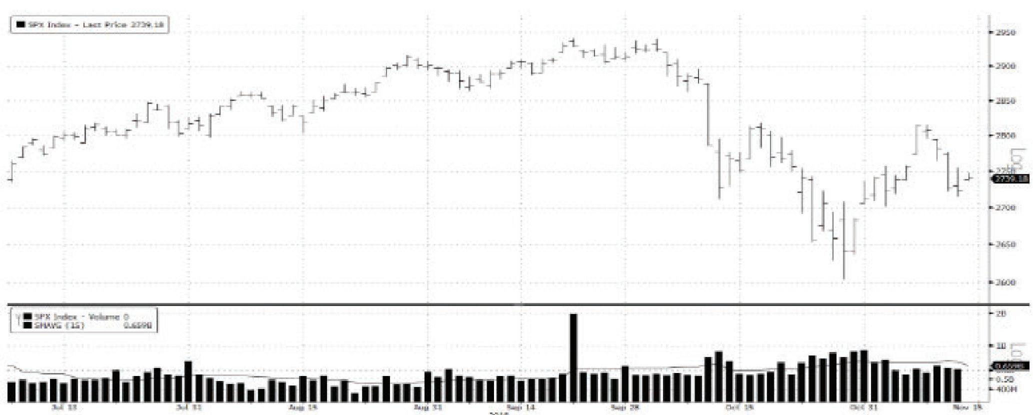

Figure 1: The S&P 500 peaked on 09.21.2018 and plunged over ten percent in October.
Source: Bloomberg

CHARTWELL INVESTMENT PARTNERS

Berwyn Strategies Current Outlook and Investment Strategy

Long-Term History of Interest Rates on the Ten Year Treasury Bond
01.13.1981 - 11.13.2018

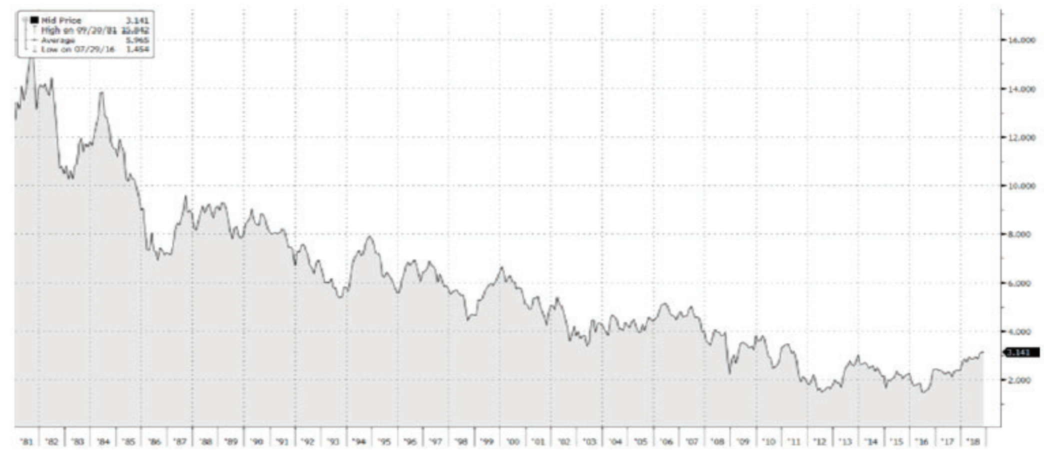

Figure 2: After a 35 year downtrend the interest rate on the ten year treasury bond is stabilizing.
Source: Bloomberg

However, it must be remembered that the foundation for the stock market's bull move is the huge boost in corporate earnings attained by the 2017 tax bill. In fact, the earnings of the companies in the S&P 500 are expected to increase 22% this year and perhaps another 10% in 2019.

Despite this strong corporate earnings growth, investors are haunted by the specter of the 2008-2009 financial collapse in which the banking system came close to failing. This collapse, the worst since the legendary crash of 1929, remains fresh in the minds of today's stock market investors. Secondly, the subsequent recovery has lacked the dynamism of previous growth periods, with Gross Domestic Product (GDP) averaging only 1.7% annually through 2017. This year, the economy is growing at a much higher rate, averaging 3.3% growth through the first nine months, with momentum increasing since the first quarter of the year. Of course, higher growth is nearly always accompanied by its own problems, namely, higher interest rates and inflation. Indeed, the October retreat in stock prices exhibited in Figure 1, was probably precipitated by the yield in the ten-year Treasury bond climbing to 3.22%. Figure 2 illustrates the historical yield on the ten-year Treasury bond going back to 1981. At that time, inflation was high and the yield on the ten-year bond reached 15%.

Given this history, it may appear to some that recent and relatively modest increases in interest rates are unimportant and concerns exaggerated. However, our economy has become used to low interest rates and the sensitivity to any rise has become heightened.

Nevertheless, although investors' fears regarding higher interest rates have contributed to the sale of stocks in October, it does not seem plausible that these increases, orchestrated by the FRB, are sufficient to precipitate a meaningful slowdown, much less an economic recession. Domestic economic growth appears to be broad based and powerful.

Still another concern is the extended duration of this bull market, coupled with the generous valuations accorded certain stocks, most notably the FAANG stocks. In examining the valuations of the FAANG stocks and their behavior in the month of October, there is a strong correlation with high valuations and poor performance. Table 1 provides the expected earnings for each of the FAANG stocks for their fiscal 2018 year as well as the projected earnings for their fiscal 2019 year. Based upon those earnings estimates and their present stock prices, the price-to-earnings (p/e) ratios are also shown. As tabulated, Apple Inc. has the most attractive valuation and Netflix is the most expensively valued of the group. Considering that an "average" p/e is typically 15, it is evident that the p/e for Amazon and Netflix are very high for both 2018 and 2019, however, investors have thought that these valuations are appropriate because of their spectacular earnings' growth rates.

CHARTWELL INVESTMENT PARTNERS

Berwyn Strategies Current Outlook and Investment Strategy

However, this perception may be changing. Amazon and Netflix, whose p/e's are in the stratosphere, were the worst hit FAANG stocks in October. Whereas Apple Inc., with a p/e of 15.3, declined only 5.98%, Amazon and Netflix declined 23.2% and 23.9%, respectively. Meanwhile, the S&P 500 Index declined 9.27% in the same time frame.

Another weight on the stock market's performance has been the issue of fair trade and tariffs. The uncertainty regarding the outcome of our discussions with China has been worrisome to investors as the winners and losers from these negotiations have been difficult to identify. For example, the recent tariffs imposed upon China by the United States are raising steel prices in this country significantly and will affect the prices and profit margins of automobiles, as well as those of many other industrial products. Nevertheless, in our opinion, it does not seem prudent to think that the United States should allow China to continue to dump steel and other materials, impose restrictions on our access to their markets, and to steal our intellectual property.

Current Strategy

Our fundamental strategy is to uncover companies whose stock prices are selling below the intrinsic value of the enterprise. This sensible approach to investing has endured for many decades and in our opinion, offers the best opportunity for investors to make money without taking excessive risk. However, in this bull market, that has followed the Great Recession of 2008-2009, value oriented investors have had a difficult time outpacing the results of growth-oriented investors. This trend is better understood by an examination of the Russell 2000 Index. The Russell 2000 can be divided into a growth segment and a value segment, with 1000 stocks in each category. In Figure 3, we have divided the performance of the growth segment by that of the value segment; when the graph is rising, growth stocks are outperforming value stocks, and a declining graph would mean that value stocks are outperforming. In examining Figure 3, since the graph is relatively flat from 2009 until 2014, both segments performed about the same. Then, from 2014 to the present, growth stocks decisively outperformed value stocks.

Ratio of the Russell 2000 Growth Stocks versus the Russell 2000 Value Stocks

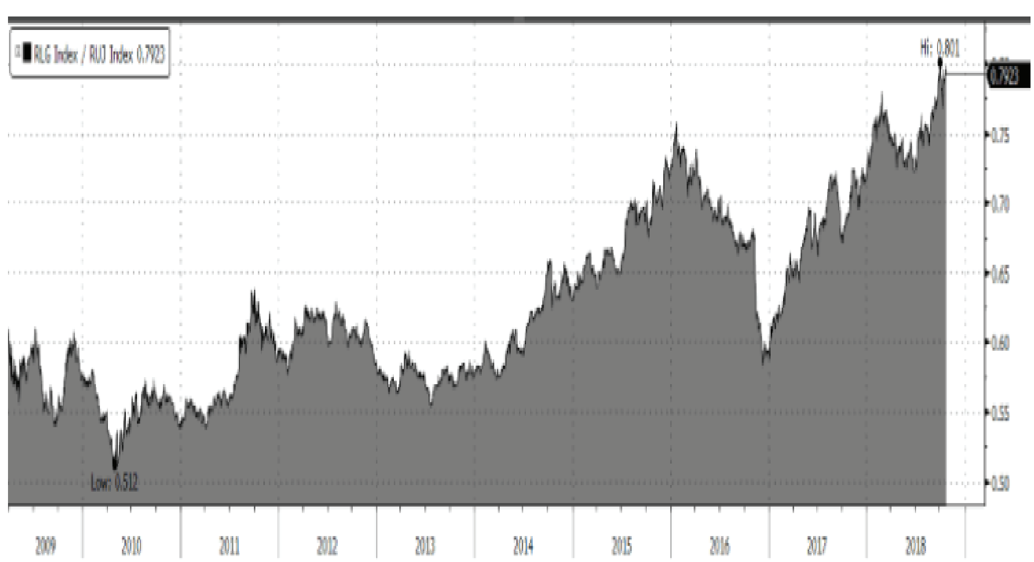

Figure 3: Growth stocks have outperformed value stocks since 2009.
Source: Bloomberg

CHARTWELL INVESTMENT PARTNERS

Berwyn Strategies Current Outlook and Investment Strategy

Present & Projected Valuations for the FAANG Stocks

STOCK	PROJECTED 2018 E	PROJECTED 2019 E	VALUATION, p/e 2018	VALUATION, p/e 2019
AMZN	$19.32/sh	$25.96/sh	86.2	64.1
AAPL	11.91	13.48	15.3	11.8
FB	7.32	7.48	20.6	20.0
GOOG	41.86	47.06	25.3	22.4
NFLX	2.62	4.12	118.0	75.0

Table 1

In the past ten years our IMAs, which are managed using our value-oriented approach, have outperformed the indices despite the attraction of investors to growth stocks, however, this past quarter we were not able to sustain that long-term momentum. In the third quarter, our Chartwell Berwyn Growth Strategy fell 1.50% in value and our Chartwell Berwyn Balanced Strategy lost 0.71% in value as compared to the gains that the averages, cited in the first paragraph of the section titled Background, were able to achieve. The Russell 2000 and the value portion of the Russell 2000 (our reference indices) rose 3.58% and 1.60%, respectively in the third quarter. Although we are disappointed with this quarter's performance, we believe our portfolios are positioned for growth over the intermediate and long-term. At the end of the quarter, our accounts were carrying excess cash and it is being invested at what we believe to be a propitious time.

As we described in previous paragraphs, the Nation's slow economic growth experienced after the Great Recession has resulted in an increasing emphasis by investors to seek growth. This trend of searching for companies having strong revenue growth, with only secondary regard for their earnings, as opposed to searching for value, has produced many solid companies selling at historically low price-to- earnings (p/e) ratios. To a value investor, the p/e is an important parameter to make an initial assessment of a stock's attractiveness. The lower the p/e, the less an investor is paying for a dollar's worth of earnings. Historically, most companies have sold in the 12 to 16 p/e range, but due to the marketplace's focus on revenue growth there are many companies selling at a single digit p/e. We have many of them in the IMA portfolios and believe that they offer compelling long-term values. The following is a short list of low p/e stocks with their current p/e shown in parentheses: Ally Financial (8.6)**, Applied Materials (7.4), Cleveland Cliffs (4.6), General Motors (5.7), Nucor (9.3), Pulte (6.9) and Western Digital (5.2). These companies, having strong balance sheets and recognizing their own shares to be offering a compelling return on investment, are either repurchasing, or plan to repurchase, significant amounts of their outstanding stock.

**The numbers in parentheses following each company mentioned reflect the percentage of the portfolio's net assets comprised of such securities as of 09/30/18. Holdings are subject to change. A full listing of portfolio holdings is available upon request.

During the third quarter we took profits in several stocks, including: the complete sale of KMG Chemicals, which had received a generous buyout offer; the complete sale of M.D.C. Holdings, a residential home builder; a partial sale of Myriad Genetics and a partial sale of Vonage, a telecommunications company. In addition, we eliminated positions in: Express, a retailer of younger women's and men's clothing; China Automotive Systems, a manufacturer of power steering systems; Pitney Bowes, a manufacturer of postage stamp machines, document management and package delivery systems and finally, Quality Systems, a software developer for the management of healthcare enterprises. For taxable accounts, these sales will partially offset the capital gains taxes incurred from the profitable sales mentioned above.

CHARTWELL INVESTMENT PARTNERS

Berwyn Strategies Current Outlook and Investment Strategy

On the buy side, we established positions in Cleveland Cliffs (CLF, 1.5%), Dycom (DY, 0.7%), Laboratory Corporation of America (LH, 1.7%) and Western Digital (WDC, 1.5%). CLF is the dominant supplier of iron ore pellets to the integrated steel industry and is broadening its offerings to include the sale of direct reduced iron ore ("DRI") as well as a premium form of DRI, hot briquetted iron, ("HBI"). DY is an engineering consulting firm that provides specialty services to the telecommunications industry. LH is a healthcare company that owns and operates a nationwide chain of laboratories for the administration and collection of a wide variety of medical test results. WDC is a high technology manufacturer of information storage equipment including high density disc drives and solid-state storage devices.

Top 3 Contributors

As of 09.30.2018

Holding	Return	Change
Matrix Systems	2.1%	up 34%
Myriad Genetics	1.4%	up 23%
Norwegian Cruise Lines	1.4%	up 22%

- These companies remain in the portfolio as long-term holdings.

Source: Chartwell Investment Partners

Top 3 Detractors

As of 09.30.2018

Holding	Return	Change
Lumber Liquidators	1.1%	down 36%
Hooker Furniture	1.5%	down 28%
Western Digital	1.5%	down 24%

- Lumber Liquidators reported another subpar quarter and will be eliminated from the portfolio.

Source: Chartwell Investment Partners

Chartwell News

On November 6th, Jim Getz, Chairman of TriState Capital (Chartwell's parent company) addressed Chartwell's employees in which he described the company's long-term growth plans. Chartwell's employees are energized and eager to participate in TriState's growth strategy.

Bob Killen has agreed to maintain a consulting relationship with Chartwell that will replace his full-time employment status, which ends in April of next year. Specifically, Bob will be an advisor to the IMA program and will continue to have client contact.

If you have any questions about your investment account, please don't hesitate to call Mike Magee (484.324.6835), or Bob Killen (610.407.4851).

Past performance is no guarantee of future performance. Investment involves a risk of loss.

This commentary is for informational purposes only. It is not an offer to buy or sell any security and should not be construed as investment advice. The views in this report were those of the Adviser at the time of writing this report and may not reflect our views on the date this report is first published or anytime thereafter.

*The Chartwell Berwyn Growth Strategy Composite includes all fully discretionary, fee-paying equity accounts with a growth objective whose asset size is $300,000 or greater at the beginning of the measurement period.

*The Chartwell Berwyn Balanced Strategy Composite includes all fully discretionary, fee-paying accounts with a balance between growth and income as a principal objective whose asset size is $300,000 or greater at the beginning of the measurement period.

The composites do not include accounts where total cash flows exceed 10% of the account's value during any quarterly period or accounts holding securities purchased by anyone other than the Advisor. No accounts using leverage or short positions are included in the composites. An individual client's account may have performed better or worse than the composites' returns presented above. The composites contain taxable and non-taxable accounts. The returns are before taxes and net of all advisory fees and commission charges. The net performance results for each composite are presented after deducting the actual fee charged to each account in the composite based on the management fee schedule in the Firm's Brochure or the fee negotiated between the account holder and Chartwell. Returns include the reinvestment of dividends and interest (total return). Returns for other Chartwell composites are available upon request.

As of 09/30/2018, Chartwell managed $9.9 billion in assets, $8.9 billion as advisor and $1 billion as sub-advisor. During the most recent quarter, the Chartwell Berwyn Growth Strategy Composite consisted of 20 accounts which represented 18.6% of total Berwyn Strategy Individually Managed Accounts and 0.2% of total Chartwell assets. During the most recent quarter, the Chartwell Berwyn Balanced Strategy Composite consisted of 30 accounts which represented 38.2% of total Berwyn Strategy Individually Managed Accounts and 0.6% of total Chartwell assets.

CHARTWELL
INVESTMENT PARTNERS

1205 Westlakes Drive
Suite 100
Berwyn, PA 19312

Chartwell Investment Partners LLC, is an investment management firm dedicated solely to the investment advisory business. Chartwell's philosophy is to rely on proprietary, bottom-up research to find high-quality investments across its various product offerings.

844-238-7591
chartwellip.com

CHARTWELL
INVESTMENT PARTNERS

1205 Westlakes Drive
Suite 100
Berwyn, PA 19312

www.chartwellip.com