Monthly Performance
September 2018

HANSEATIC MANAGEMENT SERVICES

	Sep	Aug	Jul	Rolling 3 Months	Year to Date	Rolling 1 Year	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year	Inception
DOMESTIC STRATEGIES											
ALL CAP GROWTH EQUITY*											Sep-10
Gross	-1.59%	6.08%	-0.67%	3.69%	14.43%	22.47%	16.70%	13.04%	18.28%		17.62%
Net	-1.67%	6.00%	-0.72%	3.48%	13.88%	21.74%	16.27%	12.64%	17.91%		17.29%
Russell 3000 Growth	0.33%	5.53%	2.84%	8.88%	16.99%	25.89%	20.36%	16.23%	18.60%		17.90%
ALL CAP GROWTH CONCENTRATED EQUITY*											Jul-16
Gross	-2.11%	5.78%	0.14%	3.69%	16.42%	24.31%					26.98%
Net	-2.19%	5.69%	0.05%	3.43%	15.68%	23.33%					26.28%
SPDR S&P 500 ETF Trust	0.14%	3.19%	3.70%	7.17%	8.94%	15.72%					15.68%
TAX EFFICIENT STRATEGY											
ALL CAP TAX EFFICIENT EQUITY*											Nov-17
Gross	-1.92%	5.74%	2.17%	5.96%	13.88%						15.67%
Net	-2.00%	5.65%	2.09%	5.70%	13.02%						14.59%
SPDR S&P 500 ETF Trust	0.14%	3.19%	3.70%	7.17%	8.94%						13.05%
	Sep	Aug	Jul	Rolling 3 Months	Year to Date	Rolling 1 Year	Rolling 3 Year	Rolling 5 Year	Rolling 7 Year	Rolling 10 Year	Inception
INTERNATIONAL STRATEGY											
LATIN AMERICA EQUITY*											Jan-14
Gross	1.87%	-2.58%	1.80%	1.03%	-12.14%	-7.23%	14.03%				5.80%
Net	1.80%	-2.65%	1.73%	0.82%	-12.65%	-7.92%	13.28%				5.19%
Russell Latin America	4.95%	-8.81%	8.81%	4.14%	-7.98%	-10.38%	13.76%				-2.13%
MODERATELY CONSERVATIVE STRATEGY											
GROWTH & INCOME EQUITY*											Sep-10
Gross	-1.48%	2.15%	2.86%	3.52%	4.99%	13.68%	12.66%	9.90%	12.83%		12.00%
Net	-1.55%	2.08%	2.79%	3.30%	4.33%	12.75%	11.89%	9.21%	12.28%		11.52%
S&P 500 Total Return	0.57%	3.26%	3.72%	7.71%	10.56%	17.91%	17.31%	13.95%	16.91%		15.87%

*Please refer to page 2 of this presentation for performance disclosures. Past performance is not indicative of future results. *estimate*

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The All Cap Growth Equity composite includes all fully discretionary accounts invested in the All Cap Growth strategy. The strategy seeks long-term growth of capital. The strategy typically invests in small, mid and large capitalization stocks that have optimal risk/return profiles according to their Q Score. The proprietary Hanseatic Q Score is a dynamic quantitative analytic for identifying strong market performers. The strategy may comprise companies of any size, from large, well-established firms to small, emerging growth franchises. The benchmark for the composite is the Russell 3000® Growth Index. On October 1, 2014 the benchmark was changed to the Russell 3000 Growth benchmark for a more suitable comparison.

The All Cap Growth Concentrated Equity composite includes all fully discretionary accounts invested in the All Cap Growth Concentrated strategy. The strategy seeks long-term growth of capital. The strategy typically invests in small, mid and large capitalization stocks that have optimal risk/return profiles according to their Q Score. The proprietary Hanseatic Q Score is a dynamic quantitative analytic for identifying strong market performers. The strategy is concentrated, non-diversified, and may comprise companies of any size, from large, well-established firms to small, emerging growth franchises. The benchmarks for the composite are the SPDR® S&P 500 ETF (SPY) and Russell 3000 Growth Index. On April 1, 2018, the SPDR® S&P 500 ETF (SPY) benchmark was added, retroactively to inception of the composite, for a more suitable comparison.

The All Cap Tax Efficient Equity composite includes all fully discretionary accounts invested in the All Cap Tax Efficient strategy. The strategy seeks long-term growth of capital by using equities in a tax efficient manner: long-term holding period (greater than 18 months) and lower turnover target (approximately 40% or lower). The strategy typically invests in mid and large capitalization stocks that have optimal risk/return profiles according to their Q Score. The proprietary Hanseatic Q Score is a dynamic quantitative analytic for identifying strong market performers. The strategy may comprise companies of any size, from large, well-established firms to smaller, emerging growth franchises. The benchmark for the composite is the SPDR® S&P 500 ETF (SPY).

The Latin America Equity composite includes all fully discretionary accounts invested in the Latin America strategy. The strategy seeks long-term growth of capital. The strategy typically invests in small, mid and large capitalization stocks that have optimal risk/return profiles according to their Q Score. The proprietary Hanseatic Q Score is a dynamic quantitative analytic for identifying strong market performers. The strategy may comprise companies of any size, from large, well-established firms to small, emerging growth franchises. The benchmark for the composite is the Russell Latin America Index.

The Growth & Income Equity composite includes all fully discretionary accounts invested in the Growth & Income strategy. The strategy seeks income and capital appreciation via a portfolio of companies that have the ability and willingness to pay dividends. The strategy typically invests in small, mid and large capitalization stocks that have optimal risk/return profiles according to their Q Score. The proprietary Hanseatic Q Score is a dynamic quantitative analytic for identifying strong market performers. The strategy may comprise companies of any size, from large, well-established firms to small, emerging growth franchises. The benchmark for the composite is the S&P 500® Total Return Index.

Performance results are based on estimates. For gross and net performance results, see performance table. Commentary section is based on gross performance results only for better comparison to benchmark data. Although the information contained in the commentary sections have been obtained from sources we believe to be reliable, the accuracy and completeness of such information and the opinions expressed herein cannot be guaranteed. Past performance is not necessarily indicative of future results. Different types of investments involve varying degrees of risk.

MARKET COMMENTARY

THIRD QUARTER 2018

U.S. stocks performed well in the third quarter, led by a 9% advance in the Dow Industrials and 7+% gains in the S&P 500 and Nasdaq Strategy indices. The Russell 2000 small cap index rose 3.3% after a strong 7.5% gain in the second quarter. The individual stock returns among the Dow Industrials are indicative of the breadth of the leadership during the quarter, independent of a few very large tech stocks plus Amazon. Among the Dow stocks with > 10% gains for the quarter were Pfizer, Walgreens, Merck, Visa, Caterpillar, Disney and Boeing. All in all, a fairly broad representation of industry groups. The S&P 500 gain of 7.2% (7.7% including dividends) was the biggest quarterly gain for the index since the fourth quarter of 2013 and its best third quarter performance since 2010.

The strong performance of the U.S. economy clearly underpinned the strength in the equity markets. GDP grew at a robust 4.2% pace in the second quarter, and expectations are for around 3% growth in the third quarter according to Bloomberg consensus forecasts. Manufacturing activity continues to be strong with ISM's Purchasing Manager index at a 14-year high in August. Job growth remains steady and is accelerating, albeit moderately. Business confidence is also very strong, and the improving labor market has boosted consumer confidence to the highest level since 2000.

Earnings growth is also supportive of the market. With tax reform as a partial catalyst, second quarter earnings grew over 20%. For the third quarter, the estimated earnings growth is above 19% according to Factset, which if realized will mark the third highest earnings growth since Q1 2011.

The Fed raised interest rates as expected at its September meeting, marking the eighth hike of the expansion. Consensus expectations are that the Fed will continue on a gradual trajectory of interest rate hikes. Updates to the Fed's outlook for rates ("dot plots") by FOMC members indicate a probable fourth hike this year in December and a median forecast of three hikes in 2019. The Fed's path to normalcy in monetary policy seems appropriate given the strength in employment and continued benign inflation. But as we enter a more mature phase of the tightening cycle, the Fed's response to the economic growth/inflation tradeoff will be pivotal for financial markets.

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Some conventional wisdom warns that rising interest rates will choke off growth. But that concern misses an essential distinction: whether rates are rising as the result of aggressive Fed tightening or not, and whether or not the central bank is trying to catch up to inflation. Today, rising rates are not being driven by the Fed since monetary policy is neutral. Higher rates are being driven by a strong economy rather than by higher inflation expectations. The real Fed funds rate is only marginally above zero. Financial conditions are optimal.

While the economy is clearly not in recession, the essential question is whether we are headed toward one. The Conference Board's Index of Leading Economic Indicators ("LEI"), up 0.9% in August suggests not. Of the ten components of the LEI, the slope of the yield curve (generally when yields on short term Treasury instruments are higher than those of long term investments, e.g. the 10-year Treasury note yield) is the best single recession predictor. While the yield curve has become flatter, it isn't inverted. Even when it does invert, there is often still a significant lead time before we enter a recession.

International stocks have had a very different performance profile in 2018 compared to US stocks. With the notable exception of Japan, most all equity markets outside the US have negative returns in 2018.

China has trade conflicts with the US, rising debt levels, and a cooling economy. By our measures, the Chinese stock indices are all in bear market territory. The UK's Brexit deadline in March 2019 looms with seemingly no compromise between a "no-deal" Brexit and a path that in some form preserves access to the common market. The Eurozone itself, besides the Brexit issue, has Italy challenging the EU's budget rules and threatening a replay of the Greece crisis but with more dire consequences. European stock markets reflect these problems with Germany, Italy, and Spain markets all more than 15% of their January 2018 peaks. France has held up much better.

Emerging markets as broadly expressed by various indices are now more than 20% off their January 2018 peak. Our model for one part of the emerging market spectrum, Latin America, is showing tangible signs of bottoming and looks to have very little downside risk.

On the negative side for US stocks, internal market conditions have become less favorable because the leadership of technology stocks as well as small cap stocks in general has been reversed over the past couple months. Sector rotation during a bull market is perfectly normal, and in this instance, tech leadership has been replaced in good measure by strong performance for stocks in the healthcare sector and the industrial sector. While the markets have performed well this year, two important sectors, financial and energy, have been laggards. Energy stocks have begun to improve and financial stocks may perform better with moderate increases in interest rates.

There is little doubt that the most significant risk to both the economy and the equity markets is the uncertainty over tariff issues between the US and China. Trade tensions overall were reduced considerably by the announcement of the revised NAFTA agreement (USMCA) with Canada and Mexico. The merits of the new agreement for the US are up for debate, but in any case it takes a risk and uncertainty off the table. But the most important of the administration's trade negotiations is with China. A prolonged trade dispute with China poses significant risk for the US and global economy, with consequences that cannot be forecast. A more optimistic view would be that the threatened US tariff policies are essentially negotiating tactics that will result in concessions that will lead to lower tariffs, and trade with China that is more protective of US intellectual property.

Looking forward we remain positive about the return-risk profile for the stock market. The most important thing to bear in mind in our view is that this is a strong secular bull market that is underpinned by good fundamentals. Monetary policy is supportive and there is minimal risk of recession. This is a positive environment for owning stocks.

HANSEATIC QUARTERLY STRATEGY PERFORMANCE AND ATTRIBUTION

ALL CAP GROWTH EQUITY (AG)

The All Cap Growth Equity strategy return was 3.69%, the Russell 3000 Growth benchmark return was 8.88%. The strategy's third quarter underperformance was derived from relative underperformance in nine of eleven sectors. Real Estate, Utilities, Energy, and Materials were the only sectors that were relatively flat during the quarter. Tech, Healthcare, Consumer Discretionary, and Industrials detracted 1.90%, 0.98%, 0.70%, and 0.65% respectively from relative performance. Communication Services, Staples, and Financials detracted a combined 0.93% from relative performance. The portfolio is overweight Energy, Tech, and Healthcare, and underweight Communication Services.

ALL CAP GROWTH CONCENTRATED EQUITY (CD)

The All Cap Growth Concentrated Equity strategy return was 3.69%, the SPDR S&P 500 ETF Trust (SPY) benchmark return was 7.17%. The strategy's third quarter underperformance was derived from weak performance by 4 stocks: Weight Watchers International, Inc. (WTW, Consumer Discretionary), Micron Technology, Inc. (MU, Technology), QEP Resources, Inc. (QEP, Energy), and Copart, Inc. (CPRT, Industrials) detracting 2.29%, 0.87%, 0.84%, and 0.61% respectively from the quarterly performance. Weight Watchers beat expectations and raised full-year guidance but lost subscribers. The market did not react kindly and the stock declined until early September. Notable contributors were Veeva Systems Inc. (VEEV, Technology), NVIDIA Corporation (NVDA, Technology), WellCare Health Plans, Inc. (WCG, Healthcare), and IDEXX Laboratories, Inc. (IDXX, Healthcare) contributing 2.76%, 1.43%, 1.37%, and 0.84% to the gain for the quarter. The balance of portfolio holdings contributed in a range from up 0.61% to down 0.47%, with 17 winning stocks and 11 losing stocks during the quarter. The portfolio is overweight Technology, Healthcare, and Industrials and underweight Communication Services and Staples.

ALL CAP TAX EFFICIENT EQUITY (TE)

The All Cap Tax Efficient Equity strategy return was 5.96%, the SPDR S&P 500 ETF Trust (SPY) benchmark return was 7.17%. The strategy's third quarter underperformance was derived from poor performance in 3 stocks: Wynn Resorts, Limited (WYNN, Consumer Discretionary), Micron Technology, Inc. (MU, Tech), and Applied Materials, Inc. (AMAT, Tech) detracting a combined 2.05% from the relative gain. Notable contributors during the quarter were Fortinet, Inc. (FTNT, Tech), Zebra Technologies Corporation (ZBRA), and Credit Acceptance Corporation (CACC, Financials) contributing a combined 3.43% to relative performance. The balance of portfolio holdings contributed in a range from up 0.64% to down 0.45%, with 22 winning stocks and 9 losing stocks during the quarter. The portfolio is overweight Tech, Industrials, and Energy and underweight Communication Services, Utilities, and Healthcare.

LATIN AMERICA EQUITY (LA)

The Latin America Equity strategy return was 1.03%, the Russell Latin America Index return was 4.14%. The strategy's third quarter underperformance was derived from underexposure and a larger than normal cash position. Most notable were Energy and Materials contributing 2.15% and 0.36% respectively to performance. Industrials, Staples, Financials and Communication Services detracted 0.76%, 0.33%, 0.27%, and 0.12% sequentially from performance. There was no exposure to Consumer Discretionary, Healthcare, Tech, Real Estate, or Utilities. The portfolio is overweight cash and Industrials and is underweight Financials, Staples, and Consumer Discretionary.

GROWTH & INCOME EQUITY (GI)

The Growth & Income Equity strategy return was 3.52%, the S&P 500 Total Return Index return was 7.71%. The strategy's third quarter underperformance was derived from relative underperformance in nine of eleven sectors. Notable were Energy and Materials contributing 0.75% and 0.20% respectively to relative performance. Healthcare, Tech, Financials, and Industrials detracted 1.54%, 1.44%, 0.51%, and 0.51% respectively from relative performance. Consumer Discretionary, Communication Services, Staples, Real Estate, and Utilities detracted a combined 1.13% from relative performance. The portfolio is overweight Energy, Consumer Discretionary, and Real Estate and is underweight Healthcare and Communication Services.

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