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INVESTMENT COUNSEL
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DF Dent All Cap Growth Strategy

January 2018 Commentary

Portfolio Thoughts

Strong fourth quarter 2017 equity returns put an exclamation point on a standout year for equities. The S&P 500 total return for the year was 21.83%, its best year since 2013. Equities outperformed other asset classes including fixed income, WTI oil and gold. The big gains in 2017 were driven by a synchronized upswing in global growth, a corporate profit recovery and benign monetary policy. The fundamental picture continues to look positive with corporate earnings growth expected to continue in 2018.

For the fourth quarter of 2017, D.F. Dent's All Cap Growth strategy returned 6.52% (gross of fees) vs. the Russell 3000 Growth Index total return of 7.61% and the S&P 500 Index total return of 6.64%. For the full year 2017, the total return from D.F. Dent's All Cap Growth strategy was 31.87% (gross of fees), which outperformed both the Russell 3000 Growth Index return of 29.59% and the S&P 500 Index total return of 21.83%.

Performance for the fourth quarter was positively impacted by stock selection in the Financial and Real Estate sectors. Performance was also helped by being overweight the Industrial sector. These positive contributors were offset by stock selection in the Healthcare, Industrial and Consumer Discretionary sectors. The relative weakness in Healthcare and Consumer Discretionary was due to stock specific weakness. Celgene in Healthcare and CarMax in Consumer Discretionary accounted for a large portion of the stock weakness in the quarter - comments on both stocks are below.

4Q17

Ticker		Contribution To Return
	5 Highest	**2.87**
ANSS	ANSYS, Inc.	0.70
VRSK	Verisk Analytics Inc	0.67
SEIC	SEI Investments Company	0.55
AMZN	Amazon.com, Inc.	0.49
V	Visa Inc. Class A	0.47
	5 Lowest	**-1.34**
CELG	Celgene Corporation	-0.80
KMX	CarMax, Inc.	-0.42
BL	BlackLine, Inc.	-0.06
HCSG	Healthcare Services Group, Inc.	-0.03
EXPO	Exponent, Inc.	-0.02

The top three contributors during 4Q were:

- **Ansys, Inc. (ANSS),** a developer and marketer of simulation software and services to engineers and product designers, reported a strong quarter. Deeper relationships with ANSS's largest enterprise customers resulted in larger deal sizes and impressive bookings numbers. ANSS moved closer to its near-term objective of achieving sustainable double-digit organic revenue growth. We trimmed ANSS during the quarter due to its high absolute and relative valuation. However, we remain confident in ANSS' long-term growth opportunities

- **Verisk Analytics, Inc. (VRSK),** a provider of contributory databases and other solutions to the insurance, energy, and banking industries, benefitted from improved organic growth rates and several acquisition announcements. VRSK also appointed an impressive new CFO. The stock had lagged in recent quarters due to energy market weakness, the weak British pound, and several other short-term anomalies. We expect VRSK's results to continue to inflect positively and believe this will assuage some investor concerns that have recently dogged the stock. With the stock near an all-time low relative valuation, we had added to the position three times earlier in 2017.

- **SEI Investments Company (SEIC),** a provider of investment-related technology solutions, reported a solid 3Q and offered positive commentary about its sales pipeline and medium-term margin expectations. SEIC has benefitted from strong equity markets and increased customer traction relating to new products such as the SEI Wealth Platform ("SWP"). We modestly trimmed the position in November given recent strength.

The top three detractors during 4Q were:

- **Celgene Corporation (CELG)**, a global biopharmaceutical company which focuses on therapies for the treatment of cancer and inflammatory diseases, significantly underperformed in Q4. One of the company's key drug candidates, GED-0301 for Crohn's Disease, had a surprising failure in clinical trials. In addition, one of the company's blockbuster drugs, Otezla for psoriasis and psoriatic arthritis had weak sales. The failure of GED-0301 created significant uncertainty in the company's long-term earnings growth trajectory, particularly since its leading product Revlimid will be losing patent protection in the future. Even though CELG remains well positioned with strong earnings growth for the next five years and the industry's best-in-class R&D pipeline, its long-term earnings potential has diminished as a result of the loss of GED-0301. In response, we reduced our weight in CELG in the quarter.

- **CarMax, Inc. (KMX),** the leading U.S. used car retailer, sold off following mixed quarterly results that included disappointing same-store and unit sales figures. The sales shortfall was due primarily to a shrinking gap between new and used car prices, which should reverse in time as the late-model used car supply grows. We continue to like KMX for its superior customer experience, data analytics, and business model which should drive continued profitable growth and long-term market share gains. As a domestically focused company, KMX should also meaningfully benefit from tax reform. We added to our position following the sell off.

- **BlackLine, Inc. (BL),** a Software as a Service company that automates financial accounting and book closing processes for enterprises, has been going through growing pains as a young public company. This includes some operational challenges relating to customer service and the timing of larger deals. Investors have been overly focused on these challenges, in our opinion, rather than treating them as normal developments for a young, fast-growing company. While the operational challenges may persist in 2018, we see the total addressable market (TAM) for BL as extremely large and the competitive environment as very benign. We believe BL has many years of strong growth ahead of it.

Market Thoughts

The strong US equity performance in 2017 was indicative of many favorable trends. We are still in a bull market but recognize that we have had nine years of strong equity market returns. U.S. economic growth is accelerating. Corporate profits are growing nicely, as evidenced by the strong quarterly earnings reports we have seen this year. Additionally, corporate tax reform was just passed and should further aid US corporate competitiveness. We do not believe the current level of interest rates poses a threat to U.S. equities. In fact, it is precisely because the economy is doing well that the Federal Reserve felt confident that it could begin to normalize rates.

However, it is quite possible that many of these favorable trends are likely to shift in 2018. We believe the rate of profit growth will slow in 2H18 as corporate earnings, excluding tax reform benefit, will face tough year-over-year comparisons. The U.S. economy should return to more sustainable levels of growth. Interest rates may be 75-100 basis points higher. With the unemployment rate at the lowest level in seventeen years and the economy performing above potential for the first time in ten years, we also expect inflation to start creeping higher. The S&P 500 has not had a 5% correction for over a year, the second longest period in history without a 5% correction. Corrections within a bull market are healthy and the longer the markets continue without one is a cause for concern.

The bottom line is that liquidity, the lifeblood of the financial markets, is the key to the equity markets' future. We have had nine years of abundant liquidity thanks to an accommodative Fed. Expect this to change in 2018 as the Fed will no longer be growing their balance sheet. Instead, they will be shrinking their balance sheet, which is uncharted territory for the markets. While the Fed is being very cautious as their balance sheet shrinks, we do not know all of the ramifications of the Fed's actions. Where 2017 showed little to no volatility, investors should expect more volatility in 2018. As stock pickers, D.F. Dent views volatility as opportunity. We will be vigilant about using that volatility to the advantage of our clients.

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We appreciate the confidence you have placed in D.F. Dent and Co. We will continue to work diligently on your behalf.

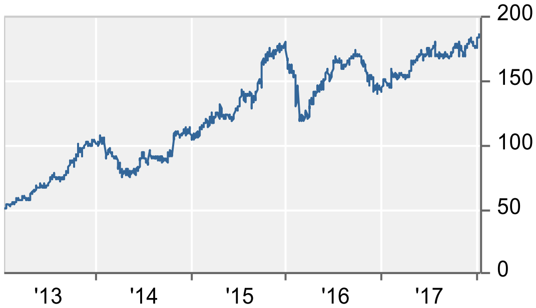
This commentary can be found on our website (www.dfdent.com). We encourage you to refer to our website for other information about our firm and our investment products, including our mutual funds.

Portfolio Profile:

Tyler Technologies, Inc. (TYL)

Tyler Technologies, Inc. - Closing Price

Source: FactSet



Share Price (1/16/2018):	$189.71
Shares Outstanding (mm):	39.3
Market Cap (mm):	$7,464
Operating Margin*	23.2%
Return on Assets*	9.5%
Return on Equity*	14.1%
Net Cash / Share	$4.83

* DFD 2017 projections, adding back amortization of acquired software and intangibles but not stock compensation expense.

Description:

Tyler Technologies, Inc., based in Plano, TX, and Yarmouth, ME, is the leading provider of software solutions and related services to state and local governments. TYL's software offerings address needs ranging from general ledgers to utility billing, parking tickets, school bus routing, jail management, jury selection, cemetery records, and property tax appraisals. TYL's sales range from a $30K project with a small town to a $36 million contract with the Cook County, Illinois (Chicago) courts. TYL couples best-in-class software with superior client support services.

Investment Rationale:

We view TYL as a well-managed and scalable company with one of the best businesses we know. We expect TYL to generate relatively consistent upper-teens earnings-per-share (EPS) growth over time as it grows revenues organically, expands margins through operating leverage, and deploys capital into acquisitions and stock buybacks. We expect the following attributes of TYL to generate sustainable stock outperformance going forward:

- Very Attractive Market: TYL sells mission-critical software to highly risk-averse organizations. TYL's strong customer service often leads to sales of additional modules and products.
- High Customer Retention Rates: TYL's annual revenue retention has exceeded 97% in recent years, excluding upsells. This is about as high as we have seen in the software space.
- Cross-Selling Opportunities Should Drive Customer Value-Added and Revenue Growth: Major cross-selling opportunities should emerge as TYL increasingly integrates its product offerings. For example, the integration of police, courts, and jail offerings should drive significant customer benefit.
- Increasing Percentage of Recurring Revenues: TYL's subscription and maintenance revenues, which are recurring in nature, represented 63.3% of revenues in the first three quarters of 2017. Some of TYL's other revenues, including software services and appraisal services revenues, tend to be somewhat consistent as well.
- Disciplined Capital Allocation Program / Strong History of Timely Buybacks: TYL has a stellar record of opportunistic M&A and repurchases. TYL has bought back 27 million shares since 2002.
- Clean and Strong Balance Sheet: TYL has $4.83/share in cash and no debt.
- Conservative Accounting: Unlike many software peers, TYL does not capitalize any R&D costs.