DF DENT
AND COMPANY, INC.
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 full year 2017, D.F. Dent's All Cap Growth strategy outperformed the S&P 500 Index total return of 21.83%. Your portfolio saw a number of stocks exceed 50% returns for the year. Particular strength was seen in your holdings in the Technology, Financials and Health Care sectors. In Technology, your holdings are software companies that are making businesses more efficient. Whether the end client is an engineering firm, a county court, or a company utilizing the cloud, software allows them to run their businesses more effectively, save time and reduce errors. Your portfolio was over-weighted in the Technology Sector and outperformed the Sector as well.
Your Financial exposure is predominantly from financial technology names, rather than banks. These companies are providing a service or solution in the financial world and using technology to create a moat around their business. In Healthcare, we want to invest in companies that are helping solve medical problems or reduce healthcare costs. We believe companies that can solve one of these two problems are somewhat immune to the healthcare debate currently taking place in our country.

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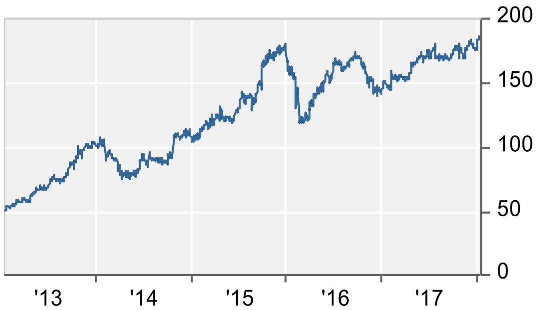
We appreciate the confidence you have placed in D.F. Dent and Co. We will continue to work diligently on your behalf.

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.