DF DENT
AND COMPANY, INC.
INVESTMENT COUNSEL
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DF Dent Midcap Growth Strategy

April 2018 Commentary

Strong equity returns in January gave way to weaker returns in February and March. The S&P 500 return was slightly negative for the quarter. This was the first quarter since 2008 that both stocks and bonds lost money while there was a positive return from cash. The quarter was marked by an increase in volatility, which had been subdued in the prior few years.

Portfolio Thoughts

For the first quarter of 2018, D.F. Dent's Midcap Growth strategy returned 5.46% (gross of fees) vs. the Russell Midcap Growth Index total return of 2.17%. Strong performance was broad based. Results were positively impacted by stock selection in the Technology, Real Estate, Healthcare and Materials sectors. The strategy's underweight position in Consumer Discretionary also helped performance for the quarter. These positive contributors were offset slightly by stock selection in the Consumer Discretionary and Industrials sectors.

During the first quarter, the Russell Midcap Growth declined by 1.5% or more on six different days. DF Dent's Midcap Growth strategy outperformed on all six days and the cumulative outperformance of those six days was 189 basis points. We believe the outperformance on those sharp down days was due to the high quality nature of our portfolio.

During the quarter, the Midcap strategy added one new name, Brooks Automation, and exited one name, Steris Corp.

- **Brooks Automation (BRKS)** provides precise, reliable handling of sensitive materials in controlled environments. It operates through two business segments, Brooks Semiconductor Solutions Group and Brooks Life Sciences Systems. The Semiconductor business provides transport, vacuum, and contamination control solutions and services for semiconductor wafer fabrication. The Life Sciences Systems segment provides automated cold storage systems and consumables for bio-sample storage. The company offers a strong value prop for clients as it prevents fab contamination and provides efficient sample storage.

- **Steris (STE)** provides infection prevention solutions in hospitals and healthcare facilities. STE was initially purchased in 2016 and the stock was up approximately 30% in 2017 and reached our assessment of fair value. We began selling the name in 2017 and finished in 2018 as it exceeded our return expectations.

1Q18

Ticker		Contribution To Return
	5 Highest	**3.29**
RHT	Red Hat, Inc.	1.01
PRO	PROS Holdings, Inc.	0.67
TYL	Tyler Technologies, Inc.	0.60
CSGP	CoStar Group, Inc.	0.52
VRSK	Verisk Analytics Inc	0.49
	5 Lowest	**-2.11**
WAGE	WageWorks, Inc.	-1.03
HCSG	Healthcare Services Group, Inc.	-0.39
TRMB	Trimble Inc.	-0.27
GWR	Genesee & Wyoming, Inc. Class A	-0.24
LKQ	LKQ Corporation	-0.18

The top three contributors during 1Q were:

Red Hat Inc. (RHT), a leading open-source software company, continued to execute above expectations with organic revenue growth in the high teens. RHT's core Red Hat Enterprise Linux (RHEL) business has stayed relatively strong, while its emerging technologies (e.g., OpenShift and OpenStack) have experienced rapid growth. RHT's deal size has also increased steadily over the last few years as customers have been willing to make larger, longer-term commitments to open-source architectures. We have trimmed RHT at times of elevated valuation, but we believe that RHT has the potential to remain a core holding for a long period of time.

- **PROS Holdings (PRO),** a provider of pricing and revenue optimization software, reported a strong finish to 2017 with solid growth in its annualized recurring revenue ("ARR"). PRO's strong operating progress throughout 2017 has further validated management's decision to transition toward a subscription-based business model and to offer more of its products in smaller size "bites" with an eye toward eventual follow-on sales. We continue to have confidence in PRO and see its core offering- data-driven pricing and revenue optimization- as being extraordinarily well-positioned for secular growth.

- **Tyler Technologies (TYL),** a software company serving state and municipal governments, performed nicely amidst strong 4Q earnings and bookings figures. TYL's efforts to better integrate its various software offerings are driving strong market share gains. For example, TYL is currently integrating its public safety, court, and jail software systems in an effort to reduce costs and improve efficiencies for customers. We view TYL as one of the best businesses in the portfolio and as a core long-term position.

The top three detractors during 1Q were:

- **WageWorks (WAGE),** an administrator of consumer-directed benefit accounts for employers, has been a significant detractor to performance. First, there were concerns regarding potentially slower growth in consumer-directed benefit accounts which weighed on the stock. This general concern was compounded by a company-specific concern regarding a delayed 10-K filing. According to WAGE and its auditors, the delay relates to questions about the timing of revenue recognition on some of WAGE's largest, most complex contracts. While we believe the revenue recognition issues are relatively minor in dollar terms and will likely relate to timing rather than revenue legitimacy, we take these issues very seriously and are monitoring the situation closely.

- **Healthcare Services Group (HCSG),** a provider of housekeeping, laundry and dietary services to long-term care and related health care facilities, lagged due to weaker operating margins and higher Days-Sales-Outstanding (DSO) year-over-year. In April, the company announced a significant write-off of account receivables from two clients. On the positive side, the company increased its organic revenue by 25% in the past three quarters and just received a large tax cut. As a long-term investor in HCSG, we realize the company has margin pressure when it onboards a large amount of new business. We believe the new business HCSG won in 2017 will start to generate targeted profit margins in 2018. We added to our relatively modest position in the first quarter.

- **Trimble (TRMB)**, a provider of advanced positioning solutions that helps increase productivity and improve safety, reported its sixth straight quarter beating estimates, with solid revenue growth and strong guidance. The second half of 2017 saw growth accelerate to 18% from 7% in the first half of the year. TRMB's end markets are regaining strength after several years of weakness. Margins, however, were weaker than expected, which impacted the stock. We believe that the margin pressure is related to recent acquisitions and is temporary in nature. With the integration of the acquisitions and continued healthy end markets, we believe TRMB will be able to show revenue growth, margin expansion, and better than expected EPS growth in the future.

Market Thoughts

At D.F. Dent, we remain positive on the equity markets in the near-term, since there is fundamental support and the global economy is performing well. In the U.S., data on employment, GDP growth, and industrial production are positive. Corporate earnings are seeing a benefit from recently-passed tax reform. Interest rates, while rising, are still not yet in restrictive territory. At the same time, we have concerns about how far the equity markets have come. Late stage bull markets can get very jubilant but eventually roll over. As we said last quarter, liquidity is the lifeblood of the markets. With the Fed becoming more restrictive, liquidity appears poised to tighten.

In such an environment, investors tend to gravitate towards higher quality stocks, which are the exact type of stocks in which DF Dent invests. Our portfolio companies have strong balance sheets, low debt, stable and predictable earnings, thoughtful uses for reinvesting cash, and talented and ethical management teams. While the volatility makes the short term ride very bumpy, we maintain a long-term view of equities. If we have learned anything in the last 15 months, it is that we have entered more of a stock pickers market. As stock pickers, D.F. Dent views volatility as opportunity. We will continue to use market 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.