

Selection Key as Volatility and Correlations Rise

Global markets ended lower the first quarter. US equities started the year strong, boosted by strong economic growth and robust earnings, but retreated in February and March. Most noteworthy was a return in equity market volatility, as measured by the CBOE VIX Index, which hit its highest level since August 2015. Against this backdrop, stocks beat bonds and leadership transitioned from large to small-cap stocks. The S&P 500 declined -0.76% while the Russell 2000 Index was essentially flat at -0.08% and the Barclays Aggregate Bond Index fell -1.46%. Growth style indices outperformed value style indices across capitalization.

Driven by security selection, our equities and convertibles strategies all generated positive absolute returns for the quarter and most outperformed their primary benchmark. (See **Performance Summary**, page 2). We continue to favor companies with long-term secular growth themes, more domestically-oriented revenue streams, and those with strong financials able to finance growth internally.

With Q1 reporting season just starting, we anticipate investors will shift their focus to the positive corporate earnings environment. According to FactSet consensus estimates for S&P 500 EPS for CY 2018 increased by 7.1% to \$157.77 from \$147.24. We are generally optimistic about the potential for returns in the convertibles and equity markets, but expect sustained volatility. Markets remain vulnerable to risks, including elevated valuations, a deceleration of earnings momentum, inflationary pressures, a more hawkish Fed and geopolitical tensions.

We have strong conviction that the fundamental strength of the companies held across our portfolios will sustain the earnings and revenue growth acceleration we expect. We believe that the combination of equity and credit research we do provides differentiated insights that benefit our portfolios, especially in regard to assessing potential risks. In a time of increased automated trading activity and heavy use of passive instruments like ETFs and ETNs, we believe selectivity and active management are increasingly important.

News & Investment Insights

www.nicpartners.com/news-insights/

March 2018

Surprising Divergence Between VIX and High Yield Credit Spreads Signals Economy and Corporate Earnings Stronger Than “Fear Gauge” Suggests

—John Wylie, Portfolio Manager

March 2018

Consultant Recognizes Need for More Women and Minority-Owned Investment Managers

—In the News

February 2018

Blockchain Technology: Looking Beyond Bitcoin

—Emmy Sobieski, CFA, Senior Analyst

Giving Back

www.nicpartners.com/giving-back/

Catherine Nicholas was thrilled to share her philosophy on investing in dynamically growing small- and mid-cap companies and current outlook on the capital markets with the Masters in Finance Program at the Rady School of Management at UCSD, March 2018.



EQUITY STRATEGIES

US SMALL CAP

Inception Date: 7/1/2007

	Annualized Returns						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Gross Return	4.2	4.2	24.1	7.3	12.6	12.0	8.9
Net Return	4.0	4.0	22.9	6.3	11.5	10.9	7.8
Russell 2000 Growth	2.3	2.3	18.6	8.8	12.9	10.9	8.5

US SMID CAP GROWTH

Inception Date: 1/1/2017

Gross Return	2.3	2.3	17.6	--	--	--	20.0
Net Return	2.0	2.0	16.5	--	--	--	18.9
Russell 2500 Growth	2.4	2.4	19.9	--	--	--	21.5

US GROWTH EQUITY

Inception Date: 7/1/2007

Gross Return	3.8	3.8	23.1	7.7	12.5	11.0	9.9
Net Return	3.6	3.6	22.1	6.8	11.6	10.1	8.9
Russell Midcap Growth	2.2	2.2	19.7	9.2	13.3	10.6	8.7

US EQUITY OPPORTUNITIES

Inception Date: 7/1/2014

Gross Return	0.9	0.9	23.0	10.0	--	--	10.8
Net Return	0.7	0.7	21.9	9.1	--	--	9.9
S&P 500	-0.8	-0.8	14.0	10.8	--	--	10.5

HEALTHCARE OPPORTUNITIES

Inception Date: 1/1/2017

Gross Return	2.3	2.3	24.9	--	--	--	33.5
Net Return	1.8	1.8	20.9	--	--	--	28.3
S&P 500	-0.8	-0.8	14.0	--	--	--	16.5

CONVERTIBLE STRATEGIES

CONVERTIBLES

Inception Date: 1/1/2009

	Annualized Returns						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Gross Return	2.0	2.0	5.8	2.2	5.9	--	12.1
Net Return	1.9	1.9	5.0	1.4	5.1	--	11.3
TR US All Cap Focus (Cvts)	2.4	2.4	7.5	3.9	6.8	--	9.3
BofA ML All US Convertible	2.4	2.4	10.6	6.6	9.6	--	13.5

CONVERTIBLES PLUS (LEVERED)

Inception Date: 1/1/2009

Gross Return	3.5	3.5	10.3	0.1	8.6	--	24.2
Net Return	3.2	3.2	8.9	-1.2	7.2	--	22.7
TR US All Cap Focus (Cvts)	2.4	2.4	7.5	3.9	6.8	--	9.3
BofA ML All US Convertible	2.4	2.4	10.6	6.6	9.6	--	13.5

CONVERTIBLE ARBITRAGE (HEDGED, UNLEVERED)

Inception Date: 11/1/2002

Gross Return	0.7	0.7	5.1	2.4	2.5	5.1	5.2
Net Return	0.5	0.5	4.0	1.3	1.5	4.0	4.1
BofA/ML 3-Month T-Bill	0.4	0.4	1.1	0.5	0.3	0.3	1.3

As of March 31, 2018. Source: Nicholas Investment Partners. Performance results are based on total returns, including the reinvestment of dividends, income and realized gains. Information is reported in US dollars. Nicholas Investment Partners does not guarantee the success of any investment product. There are risks associated with all investments and returns will vary over time due to many factors such as changing market conditions, liquidity, economic and other factors. Investing in any strategy involves the risk of loss. Past performance is no guarantee of future results.

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Some information herein reflects general market commentary and the current opinions of the author which are subject to change without notice. It is provided for general informational purposes only and does not represent investment, legal, regulatory or tax advice and should not be construed as a recommendation of any security, strategy or investment product. There is no guarantee any opinion, forecast, or objective will be achieved in the future. The information, charts and reports contained herein are unaudited. Although some information contained herein was obtained from recognized and trusted sources believed to be reliable, its accuracy and completeness cannot be guaranteed. Unless otherwise noted, Nicholas is the source of illustrations. References to specific securities, issuers and market sectors are for illustrative purposes only. Nicholas does not undertake to keep the recipients of this report advised of future developments or of changes in any of the matters discussed in this report.

Market Capitalization information is from a representative account for the strategy composite. The representative account was chosen based on non-performance criteria such as account size, cash flows and the level of account restrictions. While Nicholas believes the information is representative of other accounts in the strategy, specific information for other accounts may differ from the representative account. Nicholas used third-party information in the preparation of the characteristics and/or market environment charts. While Nicholas believes the third-party information was obtained from reliable sources, we cannot guarantee the accuracy, adequacy or completeness of the information obtained from these sources.

Investors should consider comparing the performance of any potential investment to various benchmarks that are representative of their particular investment objectives, horizons and risk tolerances.

Gross and net returns, presented within were calculated in U.S. dollars on a time-weighted, total return basis, including reinvestment of all dividends, interest and income, realized and unrealized gains or losses and are net of brokerage commissions, execution costs, and any applicable foreign taxes. Accrual accounting was used for dividend income recognition. Securities transactions are accounted for on trade date. Cash and cash equivalents are included in the performance returns. The gross returns do not give effect to investment advisory fees which would reduce gross returns. The deduction of investment advisory fees will reduce gross returns and are subject to compounding. The composite results include all actual, fee paying fully discretionary accounts under management by Nicholas after one full calendar month that have substantially the same investment objectives, policies and restrictions. Unless otherwise noted the returns reflect the performance of the product composite. Performance and incentive based fees will have similar, yet often larger, impacts to performance and account values than standard management fees. Please see Nicholas’ ADV Part 2A for a complete description of investment advisory fees.

Net returns reflect the deduction of the highest investment management fee for the product. Standard fees at the highest tier breakpoint are as follows: US Small Cap 1.00%, US Growth Equity 0.85% inception through 2016 and 0.80% thereafter, US Equity Opportunities 0.85%, Healthcare Opportunities 1.00% with a 10% performance fee, Convertibles 0.75%, Convertible Plus 1.25% and Convertible Arbitrage 1.00%. Actual fees charged may vary by portfolio due to various conditions such as account size, client relationship, complexity, etc. Client’s accounts may also be subject to additional fees unrelated to Nicholas such as custodial and administration fees, among others.

Prior to January 1, 2018, US Equity Opportunities was named Concentrated US Equity. The investment strategy has remained consistent since the inception of July 1, 2014.

Please see additional information regarding product returns at <https://www.nicpartners.com/our-approach/>

Index Descriptions

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. Index returns include the effect of dividends and income which are reinvested daily.

The Russell 2500 Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher growth earning potential as defined by Russell's leading style methodology. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics.

The Russell Midcap Growth Index measures the performance of the mid-cap growth segment of the US equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap Growth Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap growth market. Index returns include the effect of dividends and income which are reinvested daily.

The S&P 500 Index is a widely regarded gauge of the US equities market, that includes 500 leading large cap companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with approximately 80% coverage of available market capitalization, it is also typically used as a proxy for the total market. Index returns include the effect of dividends and income which are reinvested daily.

The Thomson Reuters US All Cap Focus Index is a market capitalization weighted, total return index designed to provide a broad measure of the performance of the active, balanced US convertible bond market. Qualifying fixed income securities may be rated investment grade or non-investment grade or unrated, may be issued with fixed or floating rates and must meet minimum size and liquidity requirements. Mandatory and perpetual issues are excluded. Balanced issues are selected using price and premium thresholds. The index is reviewed monthly to ensure the constituents' continued compliance with the Index rules, issues may be added only at the monthly review though bonds may be removed from the Index at any time as a result of corporate or market events. Individual issuers are capped at 3% of the Index at each monthly review.

The Bank of America/Merrill Lynch All Quality Convertibles Index (VXA0) is comprised of US denominated convertible securities of all qualities not currently in bankruptcy spanning all corporate sectors and having a par amount outstanding of \$50 million. Maturities must be at least one year.

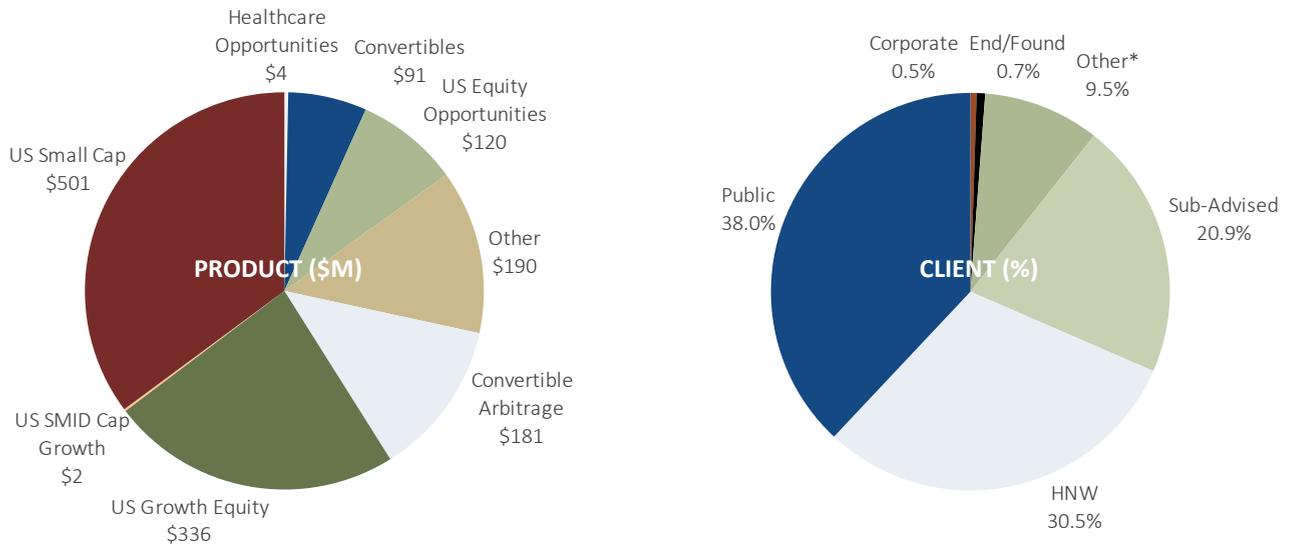
The Bank of America/Merrill Lynch 3-month US Treasury Bill Index is an index of short-term US Government securities with a remaining term to final maturity of less than three months.

About Us

Nicholas Investment Partners, L.P. is an independent, employee-owned and majority women-owned investment boutique focused on investing in dynamic, less efficient markets such as US small- and mid-cap equities and convertible bonds. We believe that change creates opportunity. We invest in dynamic companies with accelerating revenue and/or earnings growth in which our research confirms the company's growth is sustainable and the company's stock is a timely investment. Our edge comes from combining fundamental equity and credit research with the objectivity and efficiency of quantitative analytics. We have a results-driven and client-centric culture centered on building lasting and value-added relationships with a select group of institutional and private wealth clients and consultants.

Assets Under Management

\$1.4 Billion



*Highly concentrated, tax managed accounts.

A Dedicated, Experienced Client Service Team



Meredith Genova
 Director of Sales & Marketing
 20 Years Experience



Laura DeMarco
 Partner/Director of Client Service
 33 Years Experience



Tammy Wiseman
 Partner/Client Service & Marketing Officer
 26 Years Experience



Chauntelle Zwonitzer
 Client Service & Marketing Associate
 28 Years Experience

“We strive to exceed our clients expectations—not just meet them.”

—Laura DeMarco, Director of Client Service

Laura DeMarco

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