

Divergent Trends Emerge in 2Q

US equity markets climbed higher in the second quarter, outperforming non-US developed and emerging markets. With investor appetite gravitating toward domestically oriented companies, smaller-cap stocks outperformed mid and large caps. Value names outperformed in small cap, but growth stocks beat in mid and large. Core bonds were slightly negative while convertibles posted healthy positive returns, driven by their shorter duration and the increase in option value as small/mid-cap companies, which dominate issuance, outperformed. The TR All Cap Focus Convertibles Index returned 3.5% for the quarter and is up 5.9% versus 2.7% and -1.6% for the S&P 500 and Barclays Aggregate, respectively, for the year to date.

Our equities and convertibles strategies all generated positive absolute returns for the quarter, with Healthcare Opportunities, US Equity Opportunities, US SMID Cap Growth and US Small Cap up especially strongly on the outperformance of smaller-cap names and M&A activity in healthcare. All strategy composites outperformed their primary benchmarks, gross of fees. (See **Performance Summary**, page 2).

We believe that although US economic growth and US company earnings remain strong, potential downside risk is building due to geopolitical tensions, less open trade policies as well as the unwinding of low interest rate policies. Global growth trends became less synchronized in 2Q, suggesting soft patches. Yet near-term consensus earnings estimates in the US remain strong with 20% EPS growth forecasted in 2Q for the S&P 500 Index, according to FactSet. Small-cap earnings for 2Q are forecasted to be even stronger than large, the first time since 2Q16.

We are treading carefully. Revenue and earnings growth may indeed prove to be very strong this reporting season, and yet the potential for greater risk to growth in 2019 and 2020 is a cause of concern. Our style of investing in dynamically growing companies is susceptible to multiple compression as earnings visibility becomes cloudier, so we are prudently selling names that we believe have reached their fair value or trade above their historical averages. We remain vigilant in selecting those companies that have secular growth drivers and high-quality management teams able to execute through a changing business climate, and where we have high visibility and confidence in future earnings. We believe that the combination of equity and credit research we do provides differentiated insights that benefit our portfolios, especially regarding assessing potential risks.

News & Investment Insights

www.nicpartners.com/news-insights/

August 2018

CUSO Financial Annual Conference, Aug 6-9, San Diego
Lisa Wheatley, Portfolio Manager and healthcare specialist, will be a panelist, sharing her insights on the nascent phase of a long-term, secular innovation cycle in healthcare, ripe with investment opportunities.

July 2018

NASDAQ/NIRI San Diego IR Summit
Lisa Wheatley, Portfolio Manager and healthcare specialist, was a "Wall Street Insights" panelist

June 2018

Convertibles Resume Strategic Role:
In a Rising Interest Rate Environment, Convertibles Offer Lower-Risk Equity and Higher-Returning Fixed Income Exposure
—John Wylie, Portfolio Manager

May 2018

Blockchain Week in New York City: Key Takeaways
—Emmy Sobieski, CFA, Senior Analyst

May 2018

CFA Society of Los Angeles and CAIA 2018 Hedge Fund Symposium
Lisa Wheatley, Portfolio Manager and healthcare specialist, was a panelist

Announcements



Healthcare Opportunities Crosses \$20 Million in AUM

We're pleased to report that Healthcare Opportunities crossed the \$20 million mark in assets under management in May 2018. Given its expanding investor base and ability to take on larger investors without concentrating assets, we are starting to introduce the strategy to the institutional investor and consultant community.

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	8.6	13.2	28.4	8.6	12.8	12.7	9.5
Net Return	8.3	12.6	27.1	7.5	11.7	11.6	8.4
Russell 2000 Growth	7.2	9.7	21.9	10.6	13.6	11.2	9.0

US SMID CAP GROWTH

Inception Date: 1/1/2017

Gross Return	9.5	12.0	24.1	--	--	--	23.7
Net Return	9.3	11.5	23.0	--	--	--	22.5
Russell 2500 Growth	5.5	8.0	21.5	--	--	--	21.9

US GROWTH EQUITY

Inception Date: 7/1/2007

Gross Return	4.8	8.8	24.0	9.4	13.0	10.9	10.1
Net Return	4.6	8.4	23.1	8.5	12.0	10.0	9.2
Russell Midcap Growth	3.2	5.4	18.5	10.7	13.4	10.4	8.8

OPPORTUNISTIC STRATEGIES

US EQUITY OPPORTUNITIES

Inception Date: 7/1/2014

	Annualized Returns						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Gross Return	10.3	11.3	28.6	12.2	--	--	12.9
Net Return	10.1	10.8	27.5	11.2	--	--	11.9
S&P 500	3.4	2.6	14.4	11.9	--	--	10.8

HEALTHCARE OPPORTUNITIES

Inception Date: 1/1/2017

Gross Return	17.3	20.0	34.9	--	--	--	41.5
Net Return	15.1	17.1	29.5	--	--	--	35.2
S&P 500	3.4	2.6	14.4	--	--	--	16.1

CONVERTIBLE STRATEGIES

CONVERTIBLES

Inception Date: 1/1/2009

	Annualized Returns						
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Gross Return	3.7	5.8	7.7	3.3	6.2	--	12.2
Net Return	3.5	5.4	6.9	2.6	5.4	--	11.3
TR US All Cap Focus (Cvts)	3.5	5.9	9.7	5.2	6.9	--	9.5
BofA ML All US Convertible	3.8	6.3	12.0	7.7	10.0	--	13.6

CONVERTIBLES PLUS

(LEVERED)

Inception Date: 1/1/2009

Gross Return	6.9	10.6	13.9	2.2	9.3	--	24.4
Net Return	6.5	9.9	12.5	0.9	7.9	--	22.8
TR US All Cap Focus (Cvts)	3.5	5.9	9.7	5.2	6.9	--	9.5
BofA ML All US Convertible	3.8	6.3	12.0	7.7	10.0	--	13.6

CONVERTIBLE ARBITRAGE

(HEDGED, UNLEVERED)

Inception Date: 11/1/2002

Gross Return	1.1	1.9	4.4	2.7	2.5	5.1	5.2
Net Return	0.9	1.3	3.3	1.7	1.5	4.1	4.1
BofA/ML 3-Month T-Bill	0.5	0.8	1.4	0.7	0.4	0.4	1.3

As of June 30, 2018. Source: Nicholas Investment Partners. The indices shown above are for illustrative purposes only and not to be considered as representative benchmarks. 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. Please see the additional disclosures including the GIPS performance presentation at www.nicpartners.com. 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.

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 US 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 strategy. 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.

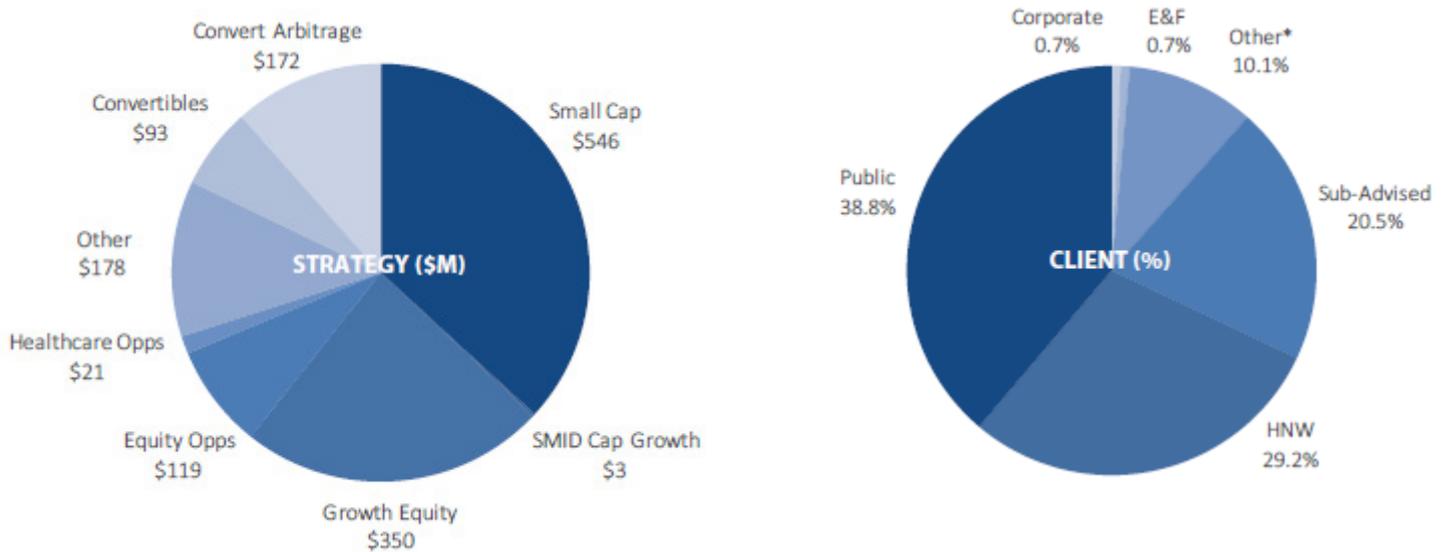
Prior to January 1, 2018, US Equity Opportunities was named Concentrated US Equity. The investment strategy has remained consistent since the inception on July 1, 2014.

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

\$1.5 Billion



As of June 30, 2018. *Highly concentrated, tax managed accounts.

A Dedicated, Experienced Client Service Team



Meredith Genova
 Director of Sales & Marketing
 21 Years Experience



Laura DeMarco
 Partner/Director of Client Service
 34 Years Experience



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



Chauntelle Zwonitzer
 Client Service & Marketing Associate
 29 Years Experience

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