NICHOLAS INVESTMENT PARTNERS

QUARTERLY UPDATE

1Q:2019

MARKETS

Investors cheered as the Fed turned dovish. Stocks enjoyed a vigorous turnaround in the first quarter after enduring painful performance and sinking sentiment in last year's fourth quarter. Fed chairman Jerome Powell pivoted from endorsing further interest-rate hikes in December to proclaiming "patience" in January as the Fed's new guiding principle for monetary policy.

- Following the March 20 FOMC meeting, Powell not only announced that there would probably be no rate hikes this year, but also said that a rate cut wasn't out of the question.
- And there was more: The Fed declared that it would end its quantitative tightening program in September.

For stocks, the best first quarter since 1998. In a lower-for-longer environment, stocks looked more attractive and, indeed, performed well across the capitalization spectrum.

- The S&P 500 rose 13.6%, its strongest first quarter since 1998.
- Small caps posted their best first-quarter return since 1991, with the Russell 2000 Index up 14.6%.
- Mid caps outperformed large caps and small caps.
- Growth outperformed value in all cap ranges.

Bonds rallied on Fed news and weak global growth. Bonds nearly doubled their fourth-quarter gain even in such a risk-on environment, as investors hailed the Fed's dovishness and took the weak global growth picture as a signal that rates weren't going up anytime soon.

- The 10-year Treasury yield closed at 2.40%, down 28 basis points during the quarter.
- The high-quality Bloomberg Barclays US Aggregate Bond Index gained 2.9%, while the Bloomberg Barclays US Corporate High-Yield Bond Index surged 7.3%.

Strength in underlying equities boosted convertible returns. Convertibles moved directionally with equities and outperformed bonds (both investment-grade and high yield). The Thomson Reuters All Cap Focus Convertible Index gained 11.2%.

PERFORMANCE

Our strategies generated strong gains (see page 3). With their small- and mid-cap growth tilts, all of our strategy composites produced positive absolute returns and most outperformed their benchmarks for the quarter. Healthcare (driven by M&A activity in biotech) and technology (a surge among our software and semiconductor holdings) positions were among the biggest contributors to absolute returns across our portfolios.

News & Investment Insights

www.nicpartners.com/news-insights/

April 2019

Nicholas Adds to Client Service & Marketing

We are pleased to announce the addition of Brian Pringle, CAIA, as Director of Business Development. Mr. Pringle has 15 years of industry experience working with sophisticated institutional managers and investors with an emphasis on the healthcare, technology and consumer sectors.

March 2019

Nicholas Hires Technology Research Specialist

We are pleased to announce the addition of Monika Garg as a Senior Research Analyst specializing in technology. Ms. Garg brings 9 years of research experience to her role plus over 10 years of industry experience as a semiconductor design and software engineer.

February 2019

Blockchain, Distributed Systems and AI in the Shared Economy 2019

In this piece, we look at the bottom of the technology stack—the pipes—and trends towards even more distributed systems (today's most popular being blockchain). We also explore how AI (artificial intelligence) fits into the lowest layer and how it permeates all the way up to politics, privacy, and concerns around large powerful tech companies' use of our "private" data today and their ability to direct our behavior using analytics and behavioral science in the future.

—Emmy Sobieski, CFA

LOOKING AHEAD

A constructive environment. On balance, we see a constructive environment for equities. Following the fourth quarter, we felt that three factors—US trade with China, interest rates and confidence—held the key to the market's near-term direction. Two of those factors (interest rates and confidence) played out positively, as we had hoped, while the third (trade) remains unsettled but appears to be approaching some degree of resolution.

Monetary policy is neutral-to-stimulative not only in the US, but also in Europe. In China, the government has embarked on an aggressive program to spark the nation's sputtering economy, whose weakness is helping to dampen growth throughout much of the rest of the world. If successful, the program would provide a welcome boost to global growth.

Yet there are areas of potential concern:

- The **yield-curve inversion** that happened in late March, which prompted fears of an approaching recession. While it certainly bears monitoring, we are not overly concerned for several reasons:
  - The inversion occurred between three-month T-bills and the 10-year Treasury—in other words, *not* between the two-year bill and the 10-year, whose inversion is considered the strongest historical indicator of recession.
  - We believe the US economy will experience muted growth in the medium term (i.e., the next 12–18 months) and won't enter recessionary territory.
- **Credit spreads**, which we're closely monitoring. A widening would signal a decline in risk appetite or an increase in recessionary fears.
- Weakness in **non-US economic growth**. In addition to China, the most significant risk is in Europe, where danger lurks in the form of Brexit, the UK slowdown, deterioration in Germany and Italy, and a potential Italian debt crisis.

Giving Back

www.nicpartners.com/giving-back/

January 2019

Catherine Nicholas Shares Investment Insights at UCSD Rady School of Management, Master in Finance Program

WHERE WE STAND NOW

Strong earnings growth will be harder to achieve—which is favorable for companies that can meet or exceed their forecast earnings. Growth typically has the edge over value when this is the case.

- U.S. economic growth is slowing but still solidly positive.
- Global economic growth is decelerating, underscored by data such as OECD leading indicators and purchasing manager indices for numerous major economies.
- Q1 S&P 500 earnings expectations have meaningfully fallen as the impact of one-time tax reform benefits recedes.
- As earnings revisions continue to right-size, less than 40% of small-cap companies are expected to deliver greater than 20% growth, according to Jefferies research.

Focusing on secular growth down-cap. Scarcity of earnings should benefit the stocks of strongly growing companies. In this environment, we're focusing on dynamic companies whose disruptive innovation and differentiated business models can drive secular growth (i.e., not dependent on GDP growth). Active management and selectivity will be critical at this late stage in the economic cycle, particularly as passive ETFs magnify crowdedness around many stocks and thus increase downside risks.

Our portfolios are well positioned. We've invested our portfolios both in companies whose potentially superior earnings growth could lead to outperformance in the slower-growth environment we've described, and in those whose businesses are domestically focused. The latter companies are less vulnerable to global economic weakness and could experience a significant earnings boost if the US-China trade situation is resolved or China's stimulus program starts to show results.

Favoring health care, tech and consumer discretionary. These are our biggest sectoral exposures, and we believe they have compelling upside potential based on a combination of strong demand, high-quality balance sheets and attractive valuations.

Earnings season will be telling. We will be scrutinizing reported numbers and managements' forward guidance announcements for signals on business confidence and, therefore, the direction of market valuations.

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EQUITY STRATEGIES

		QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
				Annualized Returns				
US SMALL CAP *Inception Date: 7/1/2007*	**Gross Return**	**21.0**	**21.0**	**4.9**	**16.8**	**7.2**	**19.1**	**8.6**
	Net Return	**20.7**	**20.7**	**3.8**	**15.6**	**6.1**	**17.9**	**7.5**
	Russell 2000 Growth	17.1	17.1	3.9	14.9	8.4	16.5	8.1
US SMID CAP GROWTH *Inception Date: 1/1/2017*	**Gross Return**	**22.2**	**22.2**	**11.3**	--	--	--	**16.0**
	Net Return	**22.0**	**22.0**	**10.2**	--	--	--	**14.9**
	Russell 2500 Growth	19.0	19.0	7.5	--	--	--	15.1
US GROWTH EQUITY *Inception Date: 7/1/2007*	**Gross Return**	**18.6**	**18.6**	**7.8**	**15.2**	**7.7**	**17.5**	**9.7**
	Net Return	**18.4**	**18.4**	**6.9**	**14.3**	**6.9**	**16.5**	**8.8**
	Russell Midcap Growth	19.6	19.6	11.5	15.1	10.9	17.6	8.9

OPPORTUNISTIC STRATEGIES

		QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
				Annualized Returns				
US EQUITY OPPORTUNITIES *Inception Date: 7/1/2014*	**Gross Return**	**18.9**	**18.9**	**7.5**	**15.4**	--	--	**10.1**
	Net Return	**18.6**	**18.6**	**6.5**	**14.5**	--	--	**9.2**
	S&P 500	13.6	13.6	9.5	13.5	--	--	10.3
HEALTHCARE OPPORTUNITIES *Inception Date: 1/1/2017*	**Gross Return**	**26.3**	**26.3**	**23.7**	--	--	--	**29.1**
	Net Return	**23.9**	**23.9**	**20.7**	--	--	--	**25.1**
	S&P 500	13.6	13.6	9.5	--	--	--	13.3

CONVERTIBLE STRATEGIES

		QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
				Annualized Returns				
CONVERTIBLES *Inception Date: 1/1/2009*	**Gross Return**	**11.6**	**11.6**	**8.9**	**9.7**	**4.6**	**11.3**	**11.8**
	Net Return	**11.4**	**11.4**	**8.1**	**8.9**	**3.9**	**10.5**	**10.9**
	TR US All Cap Focus (Cvts)	11.2	11.2	8.5	9.2	5.2	9.4	9.3
	BofA ML All US Convertible	10.3	10.3	7.8	12.1	7.1	13.0	13.0
CONVERTIBLES PLUS ***(LEVERED)*** *Inception Date: 1/1/2009*	**Gross Return**	**24.5**	**24.5**	**15.0**	**17.9**	**5.8**	**22.8**	**23.3**
	Net Return	**24.1**	**24.1**	**13.6**	**16.5**	**4.5**	**21.3**	**21.8**
	TR US All Cap Focus (Cvts)	11.2	11.2	8.5	9.2	5.2	9.4	9.3
	BofA ML All US Convertible	10.3	10.3	7.8	12.1	7.1	13.0	13.0
CONVERTIBLE ARBITRAGE ***(HEDGED, UNLEVERED)*** *Inception Date: 11/1/2002*	**Gross Return**	**4.0**	**4.0**	**4.9**	**5.4**	**2.6**	**6.1**	**5.2**
	Net Return	**3.8**	**3.8**	**3.8**	**4.4**	**1.6**	**5.1**	**4.1**
	BofA/ML 3-Month T-Bill	0.6	0.6	2.1	1.2	0.7	0.4	1.3

As of March 31, 2019. 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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Disclosures

Nicholas Investment Partners, L.P. ("Nicholas") is an independent investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training. The firm maintains a complete list and description of performance composites, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing presentations are available upon request. **Past performance is no guarantee of future results. Current performance may be lower or higher than the performance presented. This information is intended for institutions, consultants and qualified investors only.** No part of this material may be copied or duplicated, or distributed to any third party without written consent.

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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.

Disclosures *(continued)*

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 SMID Growth 0.95%, 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.

The Convertible Arbitrage strategy objective is to achieve a positive rate of return. The performance of the Convertible Arbitrage Composite noted above includes an account managed by the portfolio manager while employed at his previous firm, CapitalWorks Investment Partners, LLC which became a client of Nicholas Investment Partners on December 1, 2007. The portfolio manager was the primary portfolio manager responsible for the trading activity of this strategy. Performance data from November 1, 2002 (inception) through November 30, 2007 reflects performance at the previous investment adviser. Performance data from December 1, 2007 forward is reflective of performance of the strategy managed by the portfolio manager as an employee of Nicholas Investment Partners.

The Convertible Arbitrage strategy objective is to achieve a positive rate of return. Due to the lack of a specific market index that is directly comparable to the Convertible Arbitrage strategy based on asset class, risk profile and the absolute return objective of the strategy, we include the return and risk information for the Bank of America/Merrill Lynch US 3 Month T-Bill Index ("3 Month T-Bill Index") as the primary index comparison for informational purposes. The risk profile and return pattern of the Convertible Arbitrage strategy is significantly different from the risk profile and return pattern of the 3 Month T-Bill Index, which is generally considered a low risk investment represented by short-term government securities. The Convertible Arbitrage strategy invests in convertible bonds, convertible stock and common stock which are subject to various risks such as market, liquidity, credit, interest rate and conversion risk, among others. All investments are subject to some degree of market and investment specific risk, among others, and may limit the level of downside protection realized by the strategy.

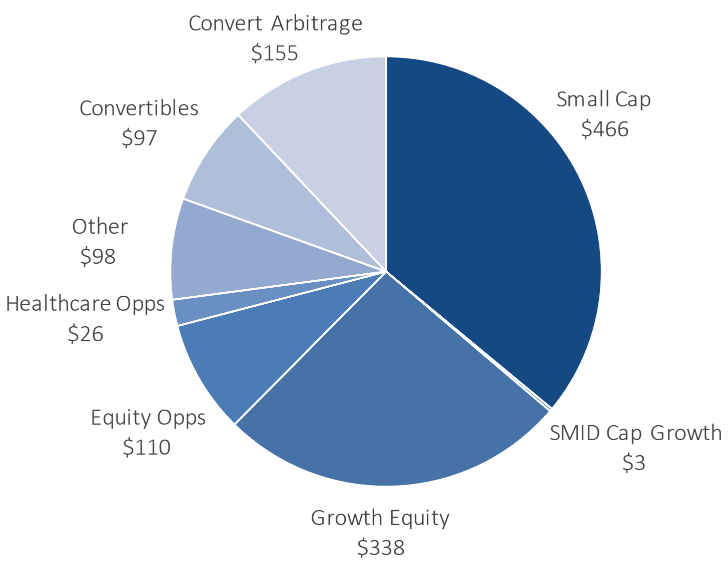
Please see additional information regarding product returns at https://www.nicpartners.com/our-approach/

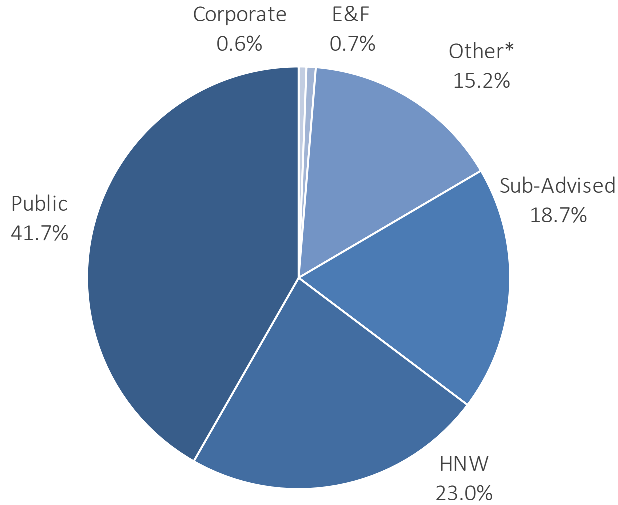
About Us

Nicholas Investment Partners, L.P. is an independent, employee-owned and majority women-owned investment boutique focused on investing in dynamically growing small- and mid-cap companies, both their equities and convertible bonds. We believe that change creates opportunity. We invest in 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

$1.3 Billion





*As of March 31, 2019. *Commingled pooled vehicles.*

A Dedicated, Experienced Client Service Team

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21 Years Experience

Brian Pringle, CAIA
Director of Business Development
15 Years Experience

Laura DeMarco
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34 Years Experience

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