

PORTFOLIO ACTIVITY

We completed several rebalancing trades in equity mandates in September, trimming profit in some areas and reallocating this capital to more attractively valued existing positions.

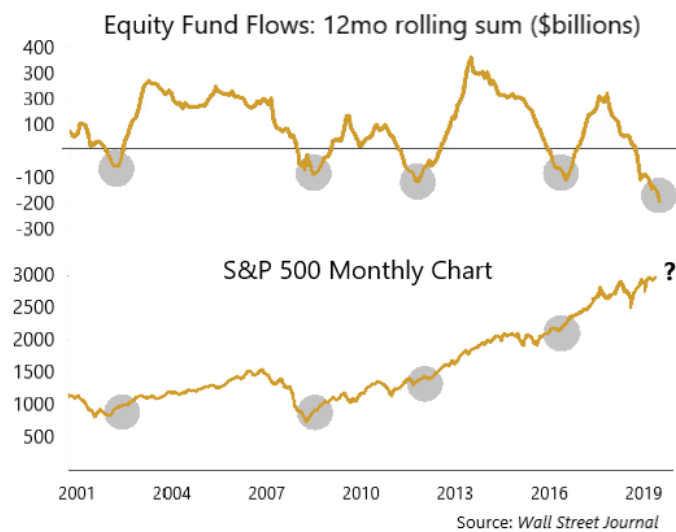
FEATURE STOCK *Fortive Corp. (FTV)*

FTV arrived in DM portfolios three years ago by way of spinoff from one of our long term holdings, Danaher Inc. FTV designs, manufactures, and markets engineered products and services within two broad divisions: *Professional Instrumentation* and *Industrial Technologies*. Since leaving Danaher, the company has undergone its own transformation, selling several businesses to reduce exposure to cyclical end markets and recently announcing a spinoff of its own, comprising its operations in fleet management and automotive service. These transactions provided the liquidity to purchase J&J's 'Advanced Sterilization Products' division, which came with a large installed customer base and a revenue stream that is more than 80% recurring. Other acquisitions have tilted toward the industrial software space, with particular attention to areas that provide access to high growth end markets. Though FTV shares have trailed the S&P 500 over the past 12 months, we believe that they are well-positioned for the quarters to come.

CAPITAL ALLOCATION FOLLOWING SENTIMENT

Last month we highlighted the low level of bullishness indicated in recent investor surveys and noted that such pessimistic readings often presage market strength. Hard data are pointing in the same direction right now, with individuals confirming their negative sentiment through their capital allocation decisions and choice of equity sectors.

As the upper panel of the following chart shows, net flows to equity mutual funds just hit an all-time low in the US, translating to record withdrawals. Lining up the path of the S&P 500 over the past 20 years (lower panel) reveals that it's generally been better to buck a nervous trend than to join it:



Activity *within* equity markets also reflects a cautious stance, as capital has shifted meaningfully away from cyclical sectors (e.g. consumer discretionary, info-tech) and toward defensive names (e.g. consumer staples, utilities). If history is a guide, though, the recent advantage enjoyed by defensive stocks could be nearing its end:

