Perspectives

Morris Capital Advisors, LLC

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Are You Smarter Than a Frog?

You may have heard of the suggestion to cook a frog by putting it in cold water first and very gradually increasing the temperature so the frog will sit patiently and not notice the change until the water is boiling. I did a little research and found that scientific studies have actually been conducted in an attempt to prove or disprove the thesis. In 1872 and 1875 Heinzmann and then Frotschen concluded that the thesis was true if you increased water temperature by 0.2 degrees Celsius per minute. In 1995, however, Douglas Melton, of Harvard no less, disproved the notion. Glad to see such scientific breakthroughs at one of our most prestigious educational institutions. As for me, I think if you put a little wine in the water the frog won't know what hit him, and will be much more relaxed in the process.

But if you think that the average investor is smarter than a frog, I might suggest a couple of real life examples to prove otherwise.

In the 1980's the concept of mortgage backed securities was born. Packaging and reselling mortgages in the form of collateralized securities expanded the mortgage market making home ownership affordable to more Americans. While the mortgage market expanded, an entire generation began to believe that home prices would only go higher, and the proliferation of these securities made the concept of risk negligible for lenders and borrowers alike. When the housing market came to a boil overextended homeowners walked away from their obligations, crushing the value of mortgage securities held by unsuspecting investors, precipitating the financial crisis.

Not convinced, how about the tech boom? Investors poured money into companies based on nothing more than an enticing concept. Most companies had no earnings, sometimes no real product (the concept of vaporware was prevalent), burned through cash, and expected that new secondary offerings at inflated valuations would keep them afloat. Investors were scalded when capital spending on technology slowed dramatically after the turn of the millennium.

It would be nice to think that investors have learned from these lessons, but we may be ignoring the risks of rising temperatures in the market today. Since the days of Alan Greenspan the Fed has become increasingly focused on the concept of market stability. It began when Greenspan moved to combat a precipitous market downturn exacerbated by portfolio insurance strategies that compounded the market crash of 1987. Over the years this "Greenspan put" morphed into a blatant strategy of the Fed under Chairman Bernanke to inflate markets in order to produce a wealth effect that stimulates economic activity. The strategy entailed creating artificial liquidity to purchase government debt (Quantitative Easing) and pushing interest rates to zero (Zero Interest Rate Policy) to prop up the markets. This forced investors to assume ever increasing levels of risk to replace income in yield starved portfolios.

Clearly, stock and bond investors seem willing to sit complacently while risk temperatures rise as the equity markets push to all-time highs and bond yields remain close to their lows.

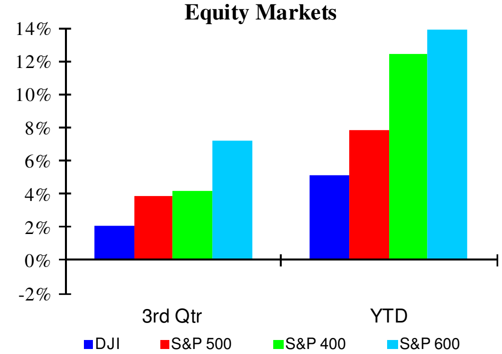
Policies as radical as the Fed's QE and ZIRP often have unintended consequences. Investors that need income have raised valuations on dividend paying stocks above historical norms. At the same time Fed efforts to spur economic growth have been marginal at best, resulting in the most anemic rebound from recessionary levels in the last century. This weak economic growth, compounded by increased regulation and employment costs, have constrained business investment and job creation. The combination of extended yield valuations and declining returns on business investment could be raising investment risk above our tolerance level.

We believe that the market has become much too focused on income replacement, as demonstrated by the recent outperformance of yield based stocks. This, in turn, has distorted the traditional role of organic earnings growth, and has prompted companies to leverage their balance sheets to engineer growth. While repurchasing shares may support valuation ratios, the increased leverage will increase risk as interest rates move upward. We know that it may be enticing to try to catch the yield trend, but we believe it is more prudent to focus on our valuation process that has been proven over numerous market cycles. We will focus instead on companies that have the potential to grow revenue and earnings organically or with sensible acquisitions, and invest in the stock of those companies that are priced attractively relative to their growth prospects. Our process may require patience, but we believe that it will keep us out of investing "hot water".

Sincerely,
Daniel A. Morris

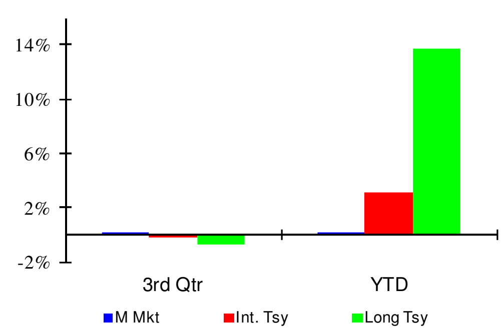
Investment Markets

Equity Markets



The third quarter began with equity markets still reeling from the after effects of the United Kingdom's surprise decision to withdraw from the European Union. As earnings were reported, investors concluded that they had over-reacted to the vote, pushing stock indices to all-time highs by mid-August. The enthusiasm was tempered in early September when monetary authorities reminded investors that interest rates were likely to be nudged higher in the near future. On balance, equity markets generated solid total returns, with cyclical stocks outperforming income-oriented stocks by wide margins, and small cap stocks outpacing large company issues.

Fixed Income Markets



In the wake of the panic over Britain's exit from the EU, yields on US Treasuries were driven to multi-year lows. As the panic subsided, yields spent most of the third quarter edging higher. Prices declined modestly across the yield curve, but in most cases losses were largely offset by coupon income.

MORRIS CAPITAL ADVISORS, LLC

15 CHESTER COMMONS MALVERN, PA 19355 ▾ 610-722-0900 800-787-3334 ▾ www.morriscapitaladvisors.com

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Portfolio Review and Performance

During the 3rd Quarter of 2016, the Large-Cap Core portfolio was helped by strong performance from Amphenol Corp., Skyworks Solutions, Applied Materials, and Microsoft Corp. The shares of Amphenol, a designer and manufacturer of a wide range of products used in the communication and cable broadband industries, rose steadily throughout the quarter. The company missed earnings expectations, but reported strong revenue growth and raised revenue and earnings guidance for the fiscal year. The shares of Skyworks Solutions performed well during the quarter, overcoming a negative reaction by investors when the company reported revenue and earnings above expectations and raised earnings estimates. The stock had run up prior to the announcement and the results did not satisfy the lofty expectations built into the stock. The shares rebounded, however, as investors embraced the potential for future revenue and earnings growth as end markets continue to expand. The shares of Applied Materials, a maker of semiconductor manufacturing equipment, rose steadily throughout the quarter. The company beat earnings expectations on strong revenue growth and raised earnings guidance well above consensus expectations. Company management also expects multi-year industry growth, creating new opportunities for growth in the future. The shares of Microsoft rose sharply in July in anticipation of, and in reaction to, the quarterly earnings report. The company reported revenue and earnings above expectations driven by growth in the Productivity and Business Processes segment, and Intelligent Cloud services, more than offsetting the decline in the Personal Computing segment. The rise in the shares reflect investor enthusiasm for the continued growth in the business segments other than Personal Computing.

Notable laggards during the 3rd Quarter of 2016 include Kroger Company, Fortune Brands Home & Security, Signet Jewelers, and CVS Health Corp. The shares of Kroger fell steadily throughout the quarter. The weakness was consistent with many of the stocks in the retail segment, compounded by some weakness in their quarterly earnings report. The company reported earnings above consensus and year-over-year revenue growth, but lowered earnings estimates for the next fiscal year. The shares of Fortune Brands Home & Security rallied early in the quarter when the company reported strong revenue growth, earnings above expectations, and raised earnings guidance for the fiscal year. The stock reversed those gains in early September, without any specific company news, mirroring stock declines in major home improvement retailers Home Depot and Lowes. The shares of Signet Jewelers dropped after the company reported revenue and earnings below expectations, and reduced guidance. Signet is reviewing a range of options in an effort to optimize the benefits its in-house credit business. The company also announced that a private equity group made a significant investment in the company in the form of convertible preferred shares, and that the proceeds would be used to repurchase common stock of the company to avoid share dilution. The shares of CVS ended lower after a very choppy quarter. The stock jumped after the company announced earnings above expectations, strong earnings growth, and reaffirmed earnings guidance, but then reversed those gains and continued to decline through quarter-end. As in the case of Fortune Brands, the weakness in CVS mirrored declines in the stocks of several pharmacy benefit managers such as AmerisourceBergen and Express Scripts.

During the quarter we sold Johnson Controls in advance of its merger with Tyco. The stock already priced in the merger synergies and the company faced risks in achieving lofty goals implied by the deals. We used the proceeds to purchase Fortune Brands Home & Security, a new entity created by a spinoff of the home and security divisions from Fortune Brands.

Net Composite Investment Performance As of 9/30/2016

	Core Portfolio	Lipper LC Core Funds	S&P 500 Index
3rd Quarter	**5.50 %**	4.71 %	3.86 %
1-Year	**7.70 %**	14.38 %	15.45 %
3-Year Annualized	**7.55 %**	9.38 %	11.07 %
5-Year Annualized	**12.90 %**	15.04 %	16.30 %
10-Year Annualized	**5.89 %**	6.47 %	7.21 %
Annual since Incept. 12/31/1992	**7.46 %**	7.28 %	9.12 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.

The S&P 500 Index is an unmanaged index compiled by Standard & Poor's. It includes reinvestment of dividends.

The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed with a blend of growth and value.

One cannot invest in an index.

KEY MEASURES 9/30/2016

	Core Portfolio	Russell 1000 Index
Average Yield	**1.86 %**	2.05 %
PE on Expected Earnings	**13.70 x**	20.86 x
Expected Growth Rate	**10.56 %**	6.78 %
PEG Ratio	**1.30 x**	3.08 x
Debt to Capital	**40.44 %**	41.62 %
Price to Book	**4.61 x**	2.89 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.

Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.

PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.

Debt to Capital: Debt divided by total capital. An insight into financial strength; a higher ratio than the industry average may show weaker financial strength.

Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ratio, the "less risky" the investment.

Past performance cannot guarantee future results. All investment strategies and investments involve risk of loss, including the possible loss of all amounts invested. Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC for a full quarter. A full list and description of all composites is available upon request. Composite creation date is 12/31/1992. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Portfolios are invested solely in US securities. Returns are time-weighted linked net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and expenses such as commissions, other brokerage fees and transaction costs and actual advisory fees charged to clients. Advisory fees range from 100 to 125 basis points of assets under management and may be found in ADV Form 2A. Performance results presented in compliance with Global Investment Performance Standards (GIPS) of the CFA Institute. The CFA Institute has not been involved with the preparation or review of this report.

The benchmarks indices shown were selected due to their composite makeup and represent, based on the Adviser's experience, the best relative performance comparison. The indices are widely recognized and accepted, and consist of a managed or unmanaged pool of securities. The indices are rebalanced on a periodic basis, may or may not include the reinvestment of dividends, and typically are gross of any assumed trading costs, management fees, or other assumed expenses, which may cause returns to be less than stated. It is not possible to invest directly in a index and an index does not incur transaction costs, while the investment strategy does. Please note that there may be material differences between the benchmark index and the investment strategies in terms of their composition, including, but not limited to, the level of diversification, exposure, and amount of exposure to certain types of investments such as commodities or foreign equities; and their level of risk, as measured by volatility and/or other methods.

Morris Capital Advisors, LLC

Large-Cap Growth Portfolio

As of 9/30/2016

Portfolio Review and Performance

During the 3rd Quarter of 2016 the Large-Cap Growth portfolio was helped by strong performance from ON Semiconductor, Apple, Inc., Amazon.com, Inc., Mastercard, Inc., and Thermo Fisher Scientific. The shares of On Semiconductor rose steadily throughout the quarter. The company reported revenue and earnings above expectations, reaffirmed guidance for the next quarter, and had an order backlog representing 80-85% of revenues for the upcoming quarter. The shares of Apple also rose steadily throughout the quarter. The stock was among the weak performers last quarter, but bounced back after reporting earnings above expectations and quarterly guidance that was generally above estimates. Investors also reacted positively to the new iPhone product launch and the potential for market share gains as competitor Samsung encountered problems with its recently launched smart phone. The shares of Amazon also continued a steady march upward. The company reported revenue and earnings above expectations, driven by strong revenue growth. Amazon experienced strong growth in North American sales and in their web services division. The shares of Thermo Fischer Scientific rose late in the quarter to reach their high for the year. The company reported earnings above expectations and solid revenue growth across each business segment. The company also raised fiscal year earnings guidance slightly.

Weak holdings during the 3rd Quarter of 2016 include Dollar Tree, Inc., Cognizant Tech Solutions, Church & Dwight , Michael Kors Holdings, and Express Scripts Holdings. It is interesting to note that three of these five companies, Dollar Tree, Church & Dwight, and Express Scripts, were among the top performers in the portfolio last quarter. The shares of Dollar Tree performed well early in the quarter building on a positive earnings report from the previous quarter, pushing to all-time highs after a restructuring announcement by the company. The stock dropped late in the quarter, however, after the company reported revenue and earnings slightly below expectations, and also reduced revenue guidance for the fiscal year. The shares of Cognizant Tech Solutions fell sharply on the final trading day of the quarter. Earlier in the quarter the company reported earnings above expectations and strong revenue growth, but as the quarter ended the company announced that it was conducting an internal investigation into payments relating to facilities in India that might violate the US Foreign Corrupt Practices Act. The shares of Church and Dwight performed well for much of the quarter after the company announced earnings above expectations but lowered quarterly guidance. The stock fell later in the quarter as concerns about weak economic growth pressured many consumer stocks. The shares of Michael Kors traded generally lower throughout the quarter. The company reported revenue and earnings above expectations, and reduced quarterly guidance slightly while reaffirming guidance for the fiscal year. The uncertain earnings report did little to move the stock which seemed stuck in the lower portion of the recent trading range. The shares of Express Scripts traded with an upward bias early in the quarter when the company reported revenue and earnings in line with expectations. The stock weakened later in the quarter when Mylan Labs, the maker of EpiPen, announced a special pricing rebate that could divert revenue away from pharmacy benefit managers such as Express Scripts and CVS.

During the quarter we sold Affiliated Managers Group and used the proceeds to build on the position in Michael Kors. Affiliated Managers Group owns controlling interests in a number of investment management firms. The company faced lower revenue growth and execution risk among its member firms. Michael Kors is showing signs of working through an unfavorable marketing environment and emerging with better merchandising and growth prospects.

Net Composite Investment Performance
As of 9/30/2016

	Growth Portfolio	Lipper LC Growth Funds	Russell 1000 Growth Index
3rd Quarter	**3.76 %**	6.69 %	4.58 %
1-Year	**8.07 %**	11.01 %	13.75 %
3-Year Annualized	**9.69 %**	9.80 %	11.80 %
5-Year Annualized	**14.66 %**	15.24 %	16.57 %
10-Year Annualized	**7.46 %**	7.54 %	8.84 %
Annual since Incept. 6/30/93	**11.84 %**	6.25 %	8.62 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.

The Russell 1000 Growth Index is an unmanaged index compiled by Russell Analytics. It includes reinvestment of dividends.

The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed for growth.

One cannot invest in an index.

KEY MEASURES
9/30/2016

	Growth Portfolio	Russell 1000 Growth Index
Average Yield	**1.04 %**	1.52 %
PE on Expected Earnings	**20.14 x**	24.12 x
Expected Growth Rate	**13.88 %**	11.12 %
PEG Ratio	**1.45 x**	2.17 x
Debt to Capital	**35.51 %**	43.29 %
Price to Book	**6.40 x**	5.98 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.

Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.

PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.

Debt to Capital: Debt divided by total capital. An insight into financial strength; a higher ratio than the industry average may show weaker financial strength.

Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ratio, the "less risky" the investment.

Portfolio Review and Performance

During the 3rd Quarter of 2016 the Small-Cap Growth portfolio was helped by strong performance from DTS, Inc., Regional Management Corp, Harsco Corporation, Cirrus Logic, Inc., and Lifeway Foods. The shares of DTS, Inc., a provider of high-definition audio entertainment products, continued to rebound from lows set earlier in the year. The stock jumped after the company reported revenue and earnings above expectations, and raised guidance for the fiscal year. The stock jumped again late in the quarter when the company accepted an all cash buyout offer at a substantial premium. The shares of Regional Management, a diversified specialty consumer finance company, rose steadily throughout the quarter. The stock received a boost when the company reported revenue and earnings above expectations, and strong year-over-year revenue growth. Harsco Corporation, a provider of industrial services and engineered products serving global industries, rose early in the quarter when the company preannounced operating income that was above expectations. The shares rose again later in the quarter when the company reported earnings above expectations and raised guidance for the fiscal year. Cirrus Logic provides integrated circuits for audio and voice signal processing. The stock rose steadily throughout the quarter, and jumped when the company reported revenue and earnings above expectations despite a decline in revenues from the previous year. Lifeway Foods is engaged in the manufacturing of probiotic, cultured, functional dairy health food products. The stock rose later in the quarter after the company restated previous earnings to correct an error that understated profits and then reporting quarterly earnings well above expectations.

Weak holdings during the 3rd Quarter of 2016 include HNI Corporation, Air Methods Corp., Cray, Inc., Express Inc., and Five Below, Inc. The shares of HNI Corporation fell sharply when the company preannounced earnings and revenue below expectations and lowered guidance for the next quarter and fiscal year. This maker of office furniture and hearth products cited slower demand from subdued small business confidence, as well as lower project activity in their business segment, and slower housing starts in their hearth segment. The shares of Air Methods, a provider of air medical emergency transport services, fell sharply when the company preannounced an earnings shortfall early in the quarter. The stock regained about half of the decline but then fell again later when the company disclosed disappointing transport data that was negatively impacted by weather cancellations. Cray, Inc. designs and manufactures high performance computing products. The shares fell sharply when the company reported revenue and earnings below expectations and reduced guidance for the coming quarter and fiscal year. Coupled with weakness from an earnings miss last quarter, the shares fell back to levels of a year ago. The shares of Express, Inc., a specialty apparel and accessories retailer, fell again when the company reported revenue and earnings below expectations and lowered guidance for the next quarter and fiscal year. The shares of Five Below, a specialty deep-discount retailer rose early in the quarter, continuing a trend stretching back to last year. The shares turned lower mid-quarter as concerns about the strength of retail sales growth surfaced, especially among the deep-discount retailers. The decline continued despite a quarterly earnings report of earnings above expectations, positive same store sales growth, and reaffirming guidance in line with previous estimates.

New positions added to the portfolio in the quarter include Allied Motion, a manufacturer of precision motion control components, American Health Services, a provider of staffing services for healthcare facilities, Francisca's Holdings, a specialty retailer, and Rudolph Technologies, a maker of defect inspection and testing systems for microelectronics manufacturers.

Net Composite Investment Performance
As of 9/30/2016

	Small-Cap Portfolio	Lipper SC Growth Funds	Russell 2000 Growth Index
3rd Quarter	**9.05 %**	7.37 %	9.22 %
1-Year	**13.73 %**	12.08 %	12.12 %
3-Year Annualized	**6.67 %**	4.87 %	6.58 %
5-Year Annualized	**14.16 %**	14.19 %	16.13 %
10-Year Annualized	**4.71 %**	7.05 %	8.28 %
Annual since Incept. 4/30/01	**7.11 %**	5.84 %	6.69 %

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One cannot invest in an index.

KEY MEASURES
9/30/2016

	Small-Cap Portfolio	Russell 2000 Growth Index
Average Yield	**0.72 %**	0.82 %
PE on Expected Earnings	**15.24 x**	34.58 x
Expected Growth Rate	**15.55 %**	5.17 %
PEG Ratio	**0.98 x**	6.69 x
Debt to Capital	**34.25 %**	27.12 %
Price to Book	**4.44 x**	4.14 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.

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