

**Registre de Commerce et des Sociétés**

Numéro RCS : B140180

Référence de dépôt : L180201054

Déposé et enregistré le 10/10/2018

**Annual report including audited financial statements  
as at 30th June 2018**

# **THE STRALEM FUND**

Société d'Investissement à Capital Variable  
organised under the laws of Luxembourg

R.C.S. Luxembourg B 140 180

---

No subscription can be received on the basis of this annual report. Subscriptions are only valid if made on the basis of the current prospectus and the key investor information document ("KIID") supplemented by the latest annual report including audited financial statements and the most recent semi-annual report, if published thereafter.

---

**THE STRALEM FUND**

**Contents**

---

**Organisation .....2**

**General information .....5**

**Report on activities of the Board of Directors.....8**

**Report of the réviseur d'entreprises agréé .....14**

**Combined statement of net assets .....17**

**Combined statement of operations and other changes in net assets .....18**

**THE STRALEM FUND - US EQUITY .....19**

    Statement of net assets .....19

    Statement of operations and other changes in net assets .....20

    Statistical information.....21

    Statement of investments and other net assets .....22

    Industrial and geographical classification of investments .....23

    Statement of changes in investments (unaudited) .....24

**Notes to the financial statements .....25**

**Additional information (unaudited) .....29**

# THE STRALEM FUND

## Organisation

---

### Registered office

11, rue Aldringen  
L-1118 LUXEMBOURG

### Board of Directors

#### *Chairman*

Stéphane RIES  
Head of Business Development  
KBL EUROPEAN PRIVATE BANKERS S.A.  
43, boulevard Royal  
L-2955 LUXEMBOURG  
(since 29th December 2017)

Serge D'ORAZIO  
KBL EUROPEAN PRIVATE BANKERS S.A.  
43, boulevard Royal  
L-2955 LUXEMBOURG  
(until 29th December 2017)

#### *Directors*

Adam S. ABELSON  
Chief Investment Officer & Senior Portfolio Manager  
STRALEM & COMPANY INCORPORATED  
551 Madison Avenue  
NEW YORK, NY 10022  
USA

Andrea BAUMANN LUSTIG  
President & Director, Private Client Asset Management  
STRALEM & COMPANY INCORPORATED  
551 Madison Avenue  
NEW YORK, NY 10022  
USA

Stéphane RIES  
Head of Business Development  
KBL EUROPEAN PRIVATE BANKERS S.A.  
43, boulevard Royal  
L-2955 LUXEMBOURG  
(until 29th December 2017)

### Management Company

KREDIETRUST LUXEMBOURG S.A.  
11, rue Aldringen  
L-2960 LUXEMBOURG

### Board of Directors of the Management Company

#### *Chairman*

Vincent DECALF

#### *Director*

Olivier de JAMBLINNE de MEUX

#### *Managing Director*

Stefan VAN GEYT

## THE STRALEM FUND

### Organisation (continued)

---

<b>Conducting officers of the Management Company</b>	Aurélien BARON Kristel COOLS Stefan VAN GEYT
<b>Depository and principal paying agent</b>	KBL EUROPEAN PRIVATE BANKERS S.A. 43, boulevard Royal L-2955 LUXEMBOURG
<b>Delegated administrator, registrar and transfer agent</b>	EUROPEAN FUND ADMINISTRATION S.A. 2, rue d'Alsace L-1122 LUXEMBOURG
<b>Investment manager</b>	STRALEM & COMPANY INCORPORATED 551 Madison Avenue NEW YORK, NY 10022 USA
<b>Cabinet de révision agréé</b>	DELOITTE Audit Société à responsabilité limitée 560, rue de Neudorf L-2220 LUXEMBOURG
<b>General distributor</b>	CARNEGIE FUND SERVICES S.A. 11, rue du Général-Dufour CH-1204 GENEVA
<b>Swiss representative</b>	CARNEGIE FUND SERVICES S.A. 11, rue du Général-Dufour CH-1204 GENEVA
<b>Paying agent in Switzerland</b>	BANQUE CANTONALE DE GENÈVE 17, quai de l'Île CH-1204 GENEVA
<b>Marketing coordinators</b>	IPA INVESTMENT PRODUCTS ADVISORY S.A. 107 Kantonstrasse CH-8807 FREIENBACH  AMIRA-CAPITAL GmbH 26, Goethestrasse D-63263 NEU-ISENBURG
<b>Information and paying agent in Austria</b>	ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG Graben 21 A-1010 VIENNA

## THE STRALEM FUND

### Organisation (continued)

---

**Information and paying agent  
in Belgium**

PUILAETCO DEWAAY PRIVATE BANKERS S.A.  
46, avenue Herrmann Debroux  
B-1160 BRUSSELS

**Centralising Correspondent in France**

CM-CIC MARKET SOLUTIONS  
6, avenue de la Provence  
F-75009 PARIS

**Information and paying agent  
in Germany**

MERCK FINCK & CO, PRIVATBANKIERS  
Neuer Wall, 77  
D-20354 HAMBURG

**Facilities agent in the United Kingdom**

FINANCIAL EXPRESS LIMITED (formerly GLOBAL  
FUNDS REGISTRATION LIMITED)  
3rd Floor, Hollywood House, Church Street East  
UK-GU21 6HJ WOKING, SURREY

# THE STRALEM FUND

## General information

---

THE STRALEM FUND (the "Company"), incorporated on 8th July 2008 for an unlimited period, is organised as a "*société d'investissement à capital variable*" in Luxembourg under the amended law of 10th August 1915 (the "1915 Law") and pursuant to Part I of the amended Law of 17th December 2010 (the "2010 Law") relating to Undertakings for Collective Investment. The Company qualifies as an Undertaking for Collective Investment in Transferable Securities (UCITS) under the Council Directive 2009/65/EC as amended. The Directive 2014/91/EU of the European Parliament and of the Council of 23rd July 2014 amending the Directive 2009/65/EC had been transposed by the law of 10th May 2016 coming into force on 1st June 2016 and amending the 2010 Law.

The Company is an "umbrella fund".

At the date of the financial statements, the following Sub-Fund is offered:

- THE STRALEM FUND - US EQUITY expressed in USD

The Sub-Fund offers two different categories of shares: capitalisation shares and distribution shares.

The capitalisation shares offer the following share categories:

- Category A shares, open to any investor;
- Category I shares, open to institutional investors.

The distribution shares offer the following share categories:

- Category DA shares, open to any investor;
- Category DI shares, open to institutional investors.

At the date of the financial statements, Category A, I and DI shares are issued.

The Company's financial year begins on 1st July and ends on 30th June of the next year.

Copies of the Articles of Incorporation of the Company, the current Prospectus, the Key Investor Information Documents ("KIID"), the latest annual including audited financial statements and semi-annual reports may be obtained free of charge during normal office hours at the registered office of the Company in Luxembourg.

### Additional information for investors in Austria:

1. The Company has appointed ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG, Graben 21, A-1010 VIENNA, as paying and information agent of the Company in Austria in the sense of § 141 InvFG 2011.
2. Requests for redemption of shares can be submitted to the Austrian paying agent and redemptions as well as the payment of redemption proceeds to Shareholders can be settled through the Austrian paying agent.
3. Copies of the Articles of Incorporation of the Company, the current Prospectus, the Key Investor Information Documents ("KIID"), the latest annual reports including audited financial statements and semi-annual reports may be obtained free from the Austrian paying agent at the above-mentioned address.
4. Subscription and redemption prices for the shares of the Sub-Fund are published daily on [www.fundsquare.net](http://www.fundsquare.net).
5. Please note that taxation according to Austrian Tax Law may differ significantly from the tax situation described in the prospectus. Shareholders and interested persons should consult their tax

## THE STRALEM FUND

### General information (continued)

---

advisor with regard to the tax consequences arising from holding shares in the Sub-Fund.

#### **Additional information for investors in Belgium:**

The Company's financial service is provided in Belgium by PUILAETCO DEWAAY PRIVATE BANKERS S.A., 46, avenue Herrmann Debroux, B-1160 BRUSSELS.

In Belgium the Company publishes all the information published in the Company's country of origin.

Copies of the Articles of Incorporation of the Company, the current Prospectus, the Key Investor Information Documents ("KIID"), the financial service agreement, the latest annual reports including audited financial statements and semi-annual reports including the list of changes in the securities portfolio during the period of the report are available to the public at the premises of the Company's financial service.

#### **Additional information for investors in France:**

CM-CIC MARKET SOLUTIONS, 6, avenue de la Provence, F-75009 PARIS assumes the function of the central correspondent in France.

#### **Additional information for investors in Germany:**

1. The paying and information agent in Germany is MERCK FINCK & CO, PRIVATBANKIERS, Neuer Wall, 77, D-20354 HAMBURG.
2. Redemptions of shares will be in the currency of the Sub-Fund. Redemption and conversion orders for shares may be submitted to the German paying agent. Redemption and conversion orders, if they are addressed to the Company or the paying agent in Germany, must arrive no later than 5.00 p.m. Luxembourg time on the Transaction Day preceding the Valuation Day. Copies of the Articles of Incorporation of the Company, the current Prospectus, the Key Investor Information Documents ("KIID"), the latest annual reports including audited financial statements and semi-annual reports, as well as the subscription, conversion and redemption prices may be obtained by Shareholders free of charge at MERCK FINCK & CO, PRIVATBANKIERS. In addition, the Depositary and Paying Agent Agreements with KBL EUROPEAN PRIVATE BANKERS S.A., LUXEMBOURG, the Domiciliary Agreement, the Administrative Agent Agreement, the Registrar & Transfer Agent Agreement with KREDIETRUST LUXEMBOURG S.A. and the Investment Management Agreement with STRALEM & COMPANY INCORPORATED may be inspected there.
3. All payments made by the Company to Shareholders in Germany (proceeds of redemptions, any distributions and other payments) may be transferred via the paying agent MERCK FINCK & CO, PRIVATBANKIERS. Publication in Germany of subscription and redemption prices and any other important information to Shareholders will be in the "*Handelsblatt*".
4. THE STRALEM FUND intends to fulfil its obligations to provide information which is included in the requirements for taxation of Shareholders subject to taxation in Germany pursuant to Section 5 of the German Investment Tax Act (InvStG) but assumes no liability for doing so. The prospectus does not provide any information on the German taxation of Shareholders in respect of shares in THE STRALEM FUND. It should, however, be noted that distributions by the Company, income allocated for tax purposes but not distributed (including profits) in the Company, and the proceeds from the sale, conversion or redemption of shares and from the assignment of claims arising from the shares and equivalent cases are subject in Germany to taxation at the legally prescribed rates and may also be subject to a deduction of tax (investment income tax plus solidarity surcharge). Moreover, any other (German or non-German) taxation must be observed.



## THE STRALEM FUND

### General information (continued)

---

Investors are recommended to contact their tax advisor in respect of taxation details relating to shares in THE STRALEM FUND.

#### **Additional information for investors in Switzerland:**

1. CARNEGIE FUND SERVICES S.A., GENEVA has been appointed as the representative of the Company in Switzerland. Copies of the Articles of Incorporation of the Company, the current Prospectus, the Key Investor Information Documents ("KIID"), the latest annual reports including audited financial statements and semi-annual reports including the list of changes in the securities portfolio during the period of the report, can be obtained free of charge from the representative in Switzerland. For the shares of the Company distributed to non-qualified investors in and from Switzerland and for the shares of the Company distributed to qualified investors in Switzerland, the place of jurisdiction is Geneva. Performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.
2. BANQUE CANTONALE DE GENEVE has been appointed as the Swiss paying agent for and by the Company.
3. All the publications of the Company in Switzerland, whether mandatory or not, will be made on [www.swissfunddata.ch](http://www.swissfunddata.ch). The issue and redemption prices of the shares of the Sub-Fund authorized for public distribution in and from Switzerland will be published daily on [www.swissfunddata.ch](http://www.swissfunddata.ch). The published prices will be exclusive of commissions.

#### **Additional information for investors in the United Kingdom:**

FINANCIAL EXPRESS LIMITED (formerly Global Funds Registration Limited), 3rd Floor, Hollywood House, Church Street East, UK-GU21 6HJ WOKING, SURREY, assumes the function of the facilities agent in the United Kingdom.

# THE STRALEM FUND

## Report on activities of the Board of Directors

---

Dear Shareholders,

The Stralem Fund – U.S. Equity (the “Fund”) closed the year ending 30th June 2018, with USD \$36 million in net assets under management at the close of its tenth year of business.

The Fund is now authorized for sale in Austria, Belgium, France, Germany, Holland, Luxembourg, the UK, Singapore\* and Switzerland.

Stralem & Company (the Investment Manager and the Promoter) have agreed to extend the fixed Total Expense Ratio cap (“TER Cap”) for the accounting period July 1st 2018 - June 30th 2019. The TER Cap on Class A and DA Shares will continue to be 2.19% and the TER Cap will continue to be 1.53% on Class I and DI Shares. The Promoter has agreed to bear the risk of any Class of shares exceeding its defined TER Cap.

We would like to take this occasion to thank the shareholders for their continued confidence in The Stralem Fund – U.S. Equity. We look forward to serving your investment objectives in the U.S. market during the year to come.

On behalf of the Board,

Stéphane RIES

Adam S. ABELSON

Andrea Baumann LUSTIG

\*For institutional investors only.

## THE STRALEM FUND

### Report on activities of the Board of Directors (continued)

---

#### Investment Managers Report

##### Review

For the year ended 30th June 2018, THE STRALEM FUND - U.S. EQUITY Class I shares (STRALFI) returned 5.09% before taxes (net after fees and expenses) and Class A shares (STRALFA) returned 4.41% before taxes (net after fees and expenses).

The fund's goal is to provide "*Participation with Protection*" in the US large cap equity market. This tenet is the core of Stralem's investment discipline. Stralem's investment approach is designed to participate in market advances but with a view towards preserving capital when the market declines and is evidenced in the portfolio's allocation to both "Up Market" and "Down Market" stocks. Preserving capital in a down market is far more impactful to long-term investment returns than outperforming during market advances and has led to outperformance over the long term.

In calendar year 2017, the U.S. stock market remained on a torrid pace with the S&P 500 not only reaching a record high, but for the first time ever, the index did not record a single down month! This performance streak came to an end in February 2018 (after 15 positive months) and resulted in Q1 18 being a down quarter barely (-0.76%), only the second negative quarter in the past five years! At the same time, February's negative return was accompanied by several spikes in volatility, the most notable being when several mutual funds, levered and short the CBOE Volatility Index (VIX), imploded when the stock market was spooked by geopolitical developments and market volatility quickly spiked. These funds were caught in a short squeeze and caused even more panic. While this episode seemed to come and go without any major market repercussions (except to the shareholders of those funds) it does serve as a reminder that markets are risky and liquidity in most asset classes can dry up quickly in moments of panic.

Equities have historically been driven by earnings growth and attractive valuations, and while investors may have differing opinions on what the proper valuation is on any given security at any given time, there is no question that when you cut the statutory corporate tax rate from 40% to 21%, there is going to be a spike in earnings growth. The market began to anticipate this earnings boost in late 2017, and it was quantified by most companies when they laid out 2018 guidance early in the year. Investors seemed very willing to look past the end of the Iran Nuclear deal, on-again/off-again dialogue with North Korea, the continuation of Fed rate increases, the widening U.S. deficit, and last, but hardly least, the never-ending tit-for-tat tariffs that may suddenly be careening towards an all-out trade war not just with China, but several of our other important trading partners. As investors seemed to cheer the market to new heights, calendar Q2 18 saw a modest gain in the S&P 500 of 3.43%, on top of 24% earnings growth! Interestingly, 65% of that gain was from the FAANG stocks (Facebook, Apple, Amazon, Netflix, Google) and Microsoft. Clearly these hyper-growth technology stocks are executing quite well, however, in 1H18 the S&P 500 was +2.65% and the FAANG stocks were 3.38% -- the rest of the S&P 500 was -0.73% - highlighting not only just how narrow the "winners" have been, but how crowded these mega cap stocks have become. This lack of market breadth is indicative of a lack of investor conviction often seen in the latter stages of bull markets.

The Stralem Investment Fund's (the "Fund") relative underperformance in fiscal 2018 was largely attributed to an overweight to our Down Market High Yield stocks. These stocks are designed to protect capital through their stable businesses and consistent cash flow and dividends. However, with the 10 Year Treasury yield going from 2.25% to over 3.10% and investors looking for companies that would benefit most from the new corporate tax cuts -- these defensive stocks (Utilities, Consumer Staples and Telecommunications) were clearly not the most in demand. In addition, the second best performing sector in the fiscal year was Consumer Discretionary (+23.45%), but almost the entire gain was attributable to Amazon (+75.6%) and Netflix (+162%). The Fund does not own either stock, as they do not fit our valuation sensitive approach, but collectively they negatively affected our relative performance by over 167bps.

## THE STRALEM FUND

### Report on activities of the Board of Directors (continued)

---

We believe that as the tax cut impact on earnings growth fades in the second half of 2018 and the longer-term shift back to fundamental analysis that take into consideration some of the potential pitfalls facing the economy and market, including but not limited to trade wars, the market will once again become more uncertain and volatile. It is at this point, and the timing is difficult to predict, that Stralem's adherence to its long-term discipline and process will be validated.

In March 2009, at the height of the Great Recession, the Federal Reserve decided that monetary policy would be the best weapon available to help the U.S. avoid a depression and thus launched an assault on interest rates in the hopes of stimulating the economy. The Fed's plan not only led to historically low interest rates, it drove investors into equities which resulted in a nine year, nearly uninterrupted bull market marked by historically low volatility.

As of 2016, the Fed is now reversing the aforementioned loose policy by slowly unwinding the QE (repurchasing fewer bonds when they mature) and continuing to slowly raise the Fed Funds rate - 2 more hikes are expected in the second half of 2018.

This reversal to more "normal market conditions" comes at a time when corporate margins are at all-time highs, price/earnings ratios are well-above historical averages, and the economy is at/near full employment. This backdrop is not necessarily bad, but it has created potential risks for less discerning investors whose preference was to "own everything" in a passive ETF strategy and has underscored the importance of active management and stock selection by enabling companies with superior fundamentals and operating performance to be commensurately rewarded once again.

Given that the market has been propelled to all-time highs despite the underlying shift to a more selective environment and risks introduced since the presidential election, we believe it prudent to remain positioned with 35% of the portfolio in what we view as defensive positions with downside protection. As a result, the portfolio remains 65% allocated to the Up Market Sector with 35% allocated to the Down Market Sector.

#### Portfolio Trades

During the month of June, home improvement retailer Lowe's (LOW), packaged foods company Mondelez (MDLZ), coffee retailer Starbucks (SBUX), international cigarette manufacturer Philip Morris (PM), and energy and utility company PPL (PPL) were sold from the LCES (Large Cap Equity Strategy) portfolio. These five positions were replaced by aerospace manufacturer Boeing (BA), cruise line company Carnival (CCL) and homebuilder D.R. Horton (DHI) within the Dominant Company category of the Up Market allocation and Down Market custody bank, Bank of New York Mellon (BK), within the Low Price to Cash Flow and regulated utility American Electric Power (AEP) within the High Yield category.

While the overall home improvement category continues to be one of the best performers within Consumer Discretionary, Lowe's management just could not seem to consistently execute against their long-term goals and targets and we lost our patience due to their lack of execution.

Stralem's thesis for Mondelez was centered around a 5-year margin-expansion program launched by CEO Irene Rosenfeld in 2013 based on rationalizing a cost structure bloated by acquisitions. After successfully combining and modernizing production facilities, streamlining its supply chain and distribution centers in Europe, and driving margins higher, future growth will be largely dependent on product innovations and additional market penetration and this has proven to be a challenge.

Starbucks was purchased based on strong sales in existing markets driven by more/better food and drink options, e-commerce initiatives built around the company's Mobile Order and Pay, and rapid expansion in China. This thesis played out well for a couple years, but after some above average growth in North America, the company seems to be searching for additional innovation to drive traffic and attach

## THE STRALEM FUND

### Report on activities of the Board of Directors (continued)

---

to drinks. Visionary CEO Howard Schulz is stepping down, and the company has settled into a period of slower sales growth.

Philip Morris International benefits from pricing power (due to inelastic demand) and from aspirational consumption (trading up) in emerging countries. The company is transitioning its focus to 'reduced-risk products', which initially saw very strong conversion rates. However, in Q1 18 the growth rate decelerated significantly and penetration in Japan seems to have plateaued far sooner than expected.

PPL has spent the last several years successfully transforming itself from a primarily non-regulated utility into an entirely regulated utility. The issue with PPL is that its UK operations continue to play an outsized role not only in its overall profit generation, but have also heaped uncertainty onto what should be steady, unexciting, regulated utility operations. Brexit and PPL's UK sterling exposure was the main culprit for uncertainty starting in 2016, but that has now transitioned to the suddenly tumultuous regulatory situation in the UK where electricity and gas bill inflation is under scrutiny.

As a Dominant Company replacement, we purchased D.R. Horton, one of the largest homebuilders in America with a focus on more affordable first time homebuyers, and retirees trading down in the fastest growing markets in the Southeast, South Central and Southwest. While mortgage rates are ticking higher, pent up demand among Millennials (the largest generation) that are finally beginning to marry and start families (homeownership rates are the lowest in 50 years) and the retiring and downsizing of the Baby Boomers remain as two strong secular drivers for home purchase—especially at D.R. Horton's price points and in their primarily geographies.

Aerospace juggernaut Boeing was bought because it is in a cash flow sweet spot as it ramps up production of its improved fuel-efficient narrow-body 737 MAX and its wide-body 787 Dreamliner, and as unit costs come down for the 787 Dreamliner as that program has cleared the issues encountered at the time of its launch. The company is in the middle of a multi-decade increase in the global demand for air travel as emerging countries reach certain income thresholds and demand leisure travel. The company has a backlog of 5,800 aircraft valued at \$486B, and while there is always a risk to this, the only real competitor, Airbus, has a 9+ year waiting list on planes as well – so the options for buyers remain limited. The company will generate a significant amount of annual free cash flow which will provide a bevy of options to the management team.

Carnival is the largest player in the cruise industry, an oligopoly with significant barriers to entry (new ships cost over \$1B), measured supply growth, strong demand based on affordability, and significant new market expansion opportunities as middle-class consumerism spreads through Asia. Carnival had a strong 2017 but the stock is not overly expensive, the company generates solid and stable cash flow with good visibility into passenger counts and revenues.

Bank of NY Mellon is an attractive down market investment because of its range of steady fee-generating businesses under its Investment Services arm (custody, execution & clearing, asset servicing, treasury services, issuer services) and its Investment Management arm. The company's technology platforms represent a significant barrier to entry for competitors, it now has a firmly-entrenched cost-cutting and technology-oriented culture, and its new CEO, Charlie Scharf, will continue the technology transformation, just as he successfully engineered at Visa.

American Electric Power is a large regulated utility holding company whose service areas span much of the Midwest (11 states) and one that we ultimately found to be more attractive as an investment than PPL. The company operates the largest transmission network in the US (over 40,000 miles) and continues to invest heavily in its regulated transmission assets, propelling the growth of its regulated rate base. AEP currently sports a solid dividend yield of 3.8%, and over the last 5 years has increased its dividend at an annual rate of nearly 5%.

During the month of January, biotechnology company Amgen (AMGN), integrated oil and gas company Exxon (XOM), and packaged foods company Kraft Heinz (KHC) were sold from the portfolio. These three positions were replaced within their categories by biotechnology pioneer Alexion Pharmaceuticals

## THE STRALEM FUND

### Report on activities of the Board of Directors (continued)

---

(ALXN), oil and gas pipeline company Kinder Morgan (KMI) and pharmaceutical company AbbVie (ABBV) respectively.

Amgen's 1st-generation biotechnology drugs have been cash cows, the proceeds of which the company has been using to develop and acquire pipeline candidates and launch those newer drugs. In recent quarters, Amgen has been experiencing attrition of its core franchise drugs due to biosimilar competition and the development of alternate cancer therapies, but the company's newer drugs, while growing, have not been able to pick up the slack.

Kraft Heinz, has successfully applied the cost-cutting playbook of its activist investor (3G Capital) since Heinz acquired Kraft Foods in 2015. Unfortunately, the company has not been as successful in reinvigorating top-line through product innovation and organic growth.

Alexion is an innovative orphan drug based biotech company whose primary drug, Soliris, is a 'C5 complement inhibitor' that has proven extremely effective in treating the 'ultra-rare' genetic blood disorders paroxysmal nocturnal hemoglobinuria (PNH) and atypical hemolytic uremic syndrome (aHUS), both characterized by the death of red blood cells, which can cause blood clotting and organ damage. With a new management team, Alexion is leveraging its core competency of identifying and developing drugs for rare-disease populations. Alexion's newer products include enzyme replacement therapies Strensiq (1st approved treatment for hypophosphatasia (HPP) in children) and Kanuma (treatment for lysosomal acid lipase deficiency (LAL-D)).

Kinder is the largest energy infrastructure company in North America, operating 84,000 miles of pipelines that transport natural gas, refined petroleum products, crude oil, condensate and CO<sub>2</sub>, along with more than 150 terminals that transload and store petroleum and chemical products. The U.S. shale revolution, Mexican natural gas demand and increasing LNG exports are boosting demand for energy infrastructure, and Kinder generates stable, fee-based cash flow primarily under take-or-pay contracts.

AbbVie has taken its place among the largest pharmaceutical companies in the world, driven by sales of its autoimmune drug Humira, the largest-selling drug in the world. While the "active ingredient" patent for Humira expired in 2016, AbbVie has successfully staved off biosimilar competition, and Humira sales continue to grow. The extension of market dominance for best-in-class Humira will provide abundant cash flow to keep increasing its dividend payout to investors, and to fill its pipeline via acquisitions.

### Conclusion

In essence, our "*Participation with Protection*" mantra is to provide substantial gains during rising markets but, more importantly, limit losses during declining markets. The end result of which, over time, has proven to be a winning formula. After 9 plus years of rising markets, fatigue often sets in. Nevertheless Stralem continues to execute as we always have and we will continue to stick to our philosophy in the future. It may not always feel good at certain points in the cycle but it will over the long-term.

In summary, we remain convinced that the market environment began to change in 2016 when the Fed began to pull back on its loose monetary policy by curtailing Quantitative Easing and beginning the process of raising interest rates. These decisions coupled with new highs in the stock market, an 9+ year rally without any significant pullback, and above average corporate valuations have introduced more uncertainty, volatility and caution into the market. It is our contention that diligent research and price sensitivity and stock selection based on strong fundamentals will continue to be rewarded. In our view, the portfolio is well-positioned to participate in continued upside momentum--capitalizing on powerful secular themes and market share shifts that may occur due to disruptive technologies--as well as protect capital on the downside if necessary. In closing, we believe it is more imperative than ever to balance "*Participation with Protection*" in order to create and protect long term wealth.

On behalf of the Investment Manager,

## THE STRALEM FUND

### Report on activities of the Board of Directors (continued)

---

#### Stralem & Company Incorporated

*The Investment Manager's Report reflects Stralem & Company Incorporated's current views and opinions. These views are subject to change at any time based upon market or other conditions. Past performance is not indicative of future results. © 2018 Stralem & Company Incorporated.*

*The Board of Director's Report reflects the views and opinions of the Fund's Board, as of 30th June 2018. Going forward, these views are subject to change at any time based upon market or other conditions. The information was prepared for the shareholders of the Fund. It is not authorized for distribution to prospective investors in the Fund unless it is accompanied by a current prospectus which describes the Fund's objectives, risks, policies, expenses and other important information. Prospective investors are advised to read the prospectus carefully before investing. Past performance is not indicative of future results. Future performance may be lower or higher than the data contained herein. The Fund can suffer losses as well as gains.*

Luxembourg, 14th August 2018

The Board of Directors

## Report of the réviseur d'entreprises agréé

To the Shareholders of  
THE STRALEM FUND

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of THE STRALEM FUND (the "Company") and its sub-fund, which comprise the statement of net assets and the statement of investments and other net assets as at 30th June 2018 and the statement of operations and other changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of THE STRALEM FUND and its sub-fund as at 30th June 2018, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

#### Basis for Opinion

We conducted our audit in accordance with the Law of 23rd July 2016 on the audit profession (Law of 23rd July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of the *Réviseur d'Entreprises Agréé* for the Audit of the Financial Statements" section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The Board of Directors of the Company is responsible for the other information. The other information comprises the information stated in the annual report but does not include the financial statements and our report of *Réviseur d'Entreprises Agréé* thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If,



## Report of the réviseur d'entreprises agréé (continued)

based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors of the Company for the Financial Statements

The Board of Directors of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Company either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Responsibilities of the *Réviseur d'Entreprises Agréé* for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of *Réviseur d'Entreprises Agréé* that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23rd July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23rd July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Company.
- Conclude on the appropriateness of Board of Directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the *Réviseur d'Entreprises Agréé* to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date



## Report of the réviseur d'entreprises agréé (continued)

of our report of *Réviseur d'Entreprises Agréé*. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Deloitte Audit, *Cabinet de Révision Agréé*

Philippe Lengès, *Réviseur d'Entreprises Agréé*  
Partner

October 1, 2018

## THE STRALEM FUND

### Combined statement of net assets (in USD)

as at 30th June 2018

#### Assets

Securities portfolio at market value	34,631,157.50
Cash at banks	11,465,423.19
Income receivable on portfolio	13,594.58
Prepaid expenses	2,912.03
	<hr/>
Total assets	46,113,087.30
	<hr/>

#### Liabilities

Bank overdrafts	1,117.88
Payable on redemptions of shares	10,000,000.05
Expenses payable	78,162.97
Other liabilities	94.39
	<hr/>
Total liabilities	10,079,375.29
	<hr/>
Net assets at the end of the year	36,033,712.01
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

## THE STRALEM FUND

### Combined statement of operations and other changes in net assets (in USD)

from 1st July 2017 to 30th June 2018

<b><u>Income</u></b>	
Dividends, net	690,802.87
Interest on bank accounts	125.29
Total income	690,928.16
<b><u>Expenses</u></b>	
Management Company and Investment Management fees	379,208.07
Depository fees	27,126.48
Banking charges and other fees	11,829.66
Transaction fees	14,606.46
Administration costs	94,553.50
Professional fees	25,201.70
General Distribution and Marketing fees	108,113.85
Publication and database expenses	17,005.67
National authorities costs (of the distribution countries) and agent fees	60,674.49
Subscription duty ("taxe d'abonnement")	8,441.20
Bank interest paid	39.42
Other expenses	49,784.57
Total expenses	796,585.07
Net investment loss	-105,656.91
<b><u>Net realised gain/(loss)</u></b>	
- on securities portfolio	8,253,411.74
- on foreign exchange	-2,238.79
Realised result	8,145,516.04
<b><u>Net variation of the unrealised gain/(loss)</u></b>	
- on securities portfolio	-5,864,262.06
Result of operations	2,281,253.98
Subscriptions	-
Redemptions	-20,769,881.88
Total changes in net assets	-18,488,627.90
Total net assets at the beginning of the year	54,522,339.91
Total net assets at the end of the year	36,033,712.01

The accompanying notes are an integral part of these financial statements.

## THE STRALEM FUND - US EQUITY

### Statement of net assets (in USD)

as at 30th June 2018

#### Assets

Securities portfolio at market value	34,631,157.50
Cash at banks	11,465,423.19
Income receivable on portfolio	13,594.58
Prepaid expenses	2,912.03
Total assets	46,113,087.30

#### Liabilities

Bank overdrafts	1,117.88
Payable on redemptions of shares	10,000,000.05
Expenses payable	78,162.97
Other liabilities	94.39
Total liabilities	10,079,375.29

Net assets at the end of the year	36,033,712.01
-----------------------------------	---------------

#### Breakdown of net assets per share class

Share class	Number of shares	Currency of share class	NAV per share in currency of share class	Net assets per share class (in USD)
Category A	46,838.345	USD	167.45	7,843,110.29
Category DI	59,251.398	USD	177.99	10,546,003.20
Category I	99,153.697	USD	177.95	17,644,598.52
				36,033,712.01

The accompanying notes are an integral part of these financial statements.

## THE STRALEM FUND - US EQUITY

### Statement of operations and other changes in net assets (in USD)

from 1st July 2017 to 30th June 2018

<b><u>Income</u></b>	
Dividends, net	690,802.87
Interest on bank accounts	125.29
Total income	690,928.16
<b><u>Expenses</u></b>	
Management Company and Investment Management fees	379,208.07
Depository fees	27,126.48
Banking charges and other fees	11,829.66
Transaction fees	14,606.46
Administration costs	94,553.50
Professional fees	25,201.70
General Distribution and Marketing fees	108,113.85
Publication and database expenses	17,005.67
National authorities costs (of the distribution countries) and agent fees	60,674.49
Subscription duty ("taxe d'abonnement")	8,441.20
Bank interest paid	39.42
Other expenses	49,784.57
Total expenses	796,585.07
Net investment loss	-105,656.91
<b><u>Net realised gain/(loss)</u></b>	
- on securities portfolio	8,253,411.74
- on foreign exchange	-2,238.79
Realised result	8,145,516.04
<b><u>Net variation of the unrealised gain/(loss)</u></b>	
- on securities portfolio	-5,864,262.06
Result of operations	2,281,253.98
Subscriptions	-
Redemptions	-20,769,881.88
Total changes in net assets	-18,488,627.90
Total net assets at the beginning of the year	54,522,339.91
Total net assets at the end of the year	36,033,712.01

The accompanying notes are an integral part of these financial statements.

## THE STRALEM FUND - US EQUITY

### Statistical information (in USD)

as at 30th June 2018

<b>Total net assets</b>	<b>Currency</b>	<b>30.06.2016</b>	<b>30.06.2017</b>	<b>30.06.2018</b>
	USD	54,762,629.08	54,522,339.91	36,033,712.01
<b>Net asset value per share</b>	<b>Currency</b>	<b>30.06.2016</b>	<b>30.06.2017</b>	<b>30.06.2018</b>
Category A	USD	146.36	160.39	167.45
Category DI	USD	153.54	169.37	177.99
Category I	USD	153.51	169.34	177.95
<b>Performance per share (in %)</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>
Category A		0.33	6.42	14.07
Category DI		0.95	7.12	14.82
Category I		0.95	7.10	14.82
<b>Number of shares</b>	<b>outstanding at the beginning of the year</b>	<b>issued</b>	<b>redeemed</b>	<b>outstanding at the end of the year</b>
Category A	100,785.354	-	-53,947.009	46,838.345
Category DI	59,251.398	-	-	59,251.398
Category I	167,252.698	-	-68,099.001	99,153.697
<b>TER per share as at 30.06.2018 (see note 7)</b>				<b>(in %)</b>
Category A				2.17
Category DI				1.52
Category I				1.52

Annual returns were calculated for the last 3 consecutive calendar years. For Sub-Funds / share types launched or liquidated during the financial year, the corresponding annual return has not been calculated.

The historical performance is not an indication of current or future results. The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares of the Company.

The accompanying notes are an integral part of these financial statements.

## THE STRALEM FUND - US EQUITY

### Statement of investments and other net assets (in USD)

as at 30th June 2018

Currency	Number / nominal value	Description	Cost	Market value	% of total net assets
<b><u>Investments in securities</u></b>					
<b><u>Transferable securities admitted to an official stock exchange listing</u></b>					
<b>Shares</b>					
USD	15,000	Abbott Laboratories	542,197.68	914,850.00	2.54
USD	11,500	AbbVie Inc	1,134,464.65	1,065,475.00	2.96
USD	4,350	Adobe Systems Inc	345,447.52	1,060,573.50	2.94
USD	8,000	Alexion Pharmaceuticals Inc	969,718.40	993,200.00	2.76
USD	950	Alphabet Inc A	517,088.83	1,072,730.50	2.98
USD	16,050	American Electric Power Co Inc	1,068,888.27	1,111,462.50	3.08
USD	12,250	Aptiv Plc Reg	1,018,800.67	1,122,467.50	3.11
USD	34,300	AT&T Inc	1,075,374.03	1,101,373.00	3.06
USD	14,600	Bank of New York Mellon Corp	811,938.12	787,378.00	2.18
USD	3,350	Boeing Co (The)	1,205,005.39	1,123,958.50	3.12
USD	4,500	Broadcom Inc Reg	982,308.60	1,091,880.00	3.03
USD	19,100	Carnival Corp	1,193,513.16	1,094,621.00	3.04
USD	11,750	Celgene Corp	796,093.66	933,185.00	2.59
USD	6,650	Chevron Corp	631,067.64	840,759.50	2.33
USD	6,150	Chubb Ltd N	699,864.66	781,173.00	2.17
USD	11,900	Danaher Corp	493,406.88	1,174,292.00	3.26
USD	17,700	Dominion Energy Inc	935,766.27	1,206,786.00	3.35
USD	18,500	DowDuPont Inc Reg	590,134.30	1,219,520.00	3.38
USD	28,100	Dr Horton Inc	1,192,325.15	1,152,100.00	3.20
USD	13,750	Duke Energy Corp	1,029,390.44	1,087,350.00	3.02
USD	6,850	EOG Resources Inc	692,641.86	852,345.50	2.37
USD	5,750	Facebook Inc A	712,342.20	1,117,340.00	3.10
USD	4,950	Fedex Corp	485,526.56	1,123,947.00	3.12
USD	16,250	Intercontinental Exchang Inc	776,962.28	1,195,187.50	3.32
USD	6,850	Johnson & Johnson	762,620.77	831,179.00	2.31
USD	47,900	Kinder Morgan Inc	906,558.78	846,393.00	2.35
USD	19,600	Merck & Co Inc	799,555.55	1,189,720.00	3.30
USD	10,900	Microsoft Corp	303,743.46	1,074,849.00	2.98
USD	23,500	Oracle Corp	761,460.99	1,035,410.00	2.87
USD	29,600	Pfizer Inc	593,351.86	1,073,888.00	2.98
USD	4,250	Thermo Fisher Scientific Inc	351,602.87	880,345.00	2.44
USD	5,150	United Health Group Inc	643,854.38	1,263,501.00	3.51
USD	9,150	Visa Inc A	405,260.56	1,211,917.50	3.36
Total investments in securities			25,428,276.44	34,631,157.50	96.11
Cash at banks				11,465,423.19	31.82
Bank overdrafts				-1,117.88	0.00
Other net assets/(liabilities)				-10,061,750.80	-27.93
Total				36,033,712.01	100.00

The accompanying notes are an integral part of these financial statements.



## THE STRALEM FUND - US EQUITY

### Industrial and geographical classification of investments

as at 30th June 2018

#### Industrial classification

(in percentage of net assets)

Healthcare	25.39 %
Technologies	17.90 %
Industrials	12.70 %
Financials	11.03 %
Utilities	9.45 %
Energy	7.05 %
Cyclical consumer goods	6.15 %
Raw materials	3.38 %
Telecommunications services	3.06 %
Total	<u>96.11 %</u>

#### Geographical classification

(by domicile of the issuer)

(in percentage of net assets)

United States of America	87.79 %
Jersey	3.11 %
Panama	3.04 %
Switzerland	2.17 %
Total	<u>96.11 %</u>

## THE STRALEM FUND - US EQUITY

### Statement of changes in investments (unaudited)

from 1st July 2017 to 30th June 2018

Currency	Description	Purchases	Sales	Other*
<b>Shares</b>				
USD	Abbott Laboratories	2,750	11,750	0
USD	AbbVie Inc	15,300	3,800	0
USD	Adobe Systems Inc	0	7,850	0
USD	Alexion Pharmaceuticals Inc	10,750	2,750	0
USD	Alphabet Inc A	0	900	0
USD	American Electric Power Co Inc	16,050	0	0
USD	Amgen Inc	0	6,300	0
USD	Aptiv Plc Reg	20,200	7,950	0
USD	AT&T Inc	12,400	16,400	0
USD	Bank of New York Mellon Corp	14,600	0	0
USD	Boeing Co (The)	3,350	0	0
USD	Broadcom Inc Reg	0	1,100	5,600
USD	Broadcom Ltd	0	1,800	-5,600
USD	Carnival Corp	19,100	0	0
USD	Celgene Corp	6,200	3,050	0
USD	Chevron Corp	400	3,950	0
USD	Chubb Ltd N	900	2,450	0
USD	Danaher Corp	1,300	6,100	0
USD	Delphi Technologies Plc Reg	0	5,000	5,000
USD	Dominion Energy Inc	2,800	5,700	0
USD	Dow Chemical Co	0	0	-24,900
USD	DowDuPont Inc Reg	0	6,400	24,900
USD	Dr Horton Inc	28,100	0	0
USD	Duke Energy Corp	2,000	7,550	0
USD	EOG Resources Inc	0	4,350	0
USD	Exxon Mobil Corp	0	12,750	0
USD	Facebook Inc A	0	5,450	0
USD	Fedex Corp	0	3,450	0
USD	Intercontinental Exchang Inc	0	11,000	0
USD	Johnson & Johnson	1,500	3,150	0
USD	Johnson Controls Intl Plc	0	36,134	0
USD	Kinder Morgan Inc	55,450	7,550	0
USD	Kraft Heinz Co (The)	1,900	19,500	0
USD	Lowe's Companies Inc	0	20,000	0
USD	Merck & Co Inc	0	5,800	0
USD	Microsoft Corp	0	13,500	0
USD	Mondelez Intl Inc	3,700	39,300	0
USD	Oracle Corp	0	12,500	0
USD	Pfizer Inc	0	18,000	0
USD	Philip Morris Intl Inc	0	14,300	0
USD	PPL Corp	8,400	50,400	0
USD	Schlumberger Ltd	0	20,200	0
USD	Starbucks Corp	2,750	28,350	0
USD	Thermo Fisher Scientific Inc	1,050	3,900	0
USD	United Health Group Inc	1,000	5,450	0
USD	Visa Inc A	0	9,150	0
USD	Walt Disney Co (The)	0	13,700	0

\*corresponding to corporate actions

## THE STRALEM FUND

### Notes to the financial statements

as at 30th June 2018

---

#### Note 1 - Significant accounting policies

##### a) Presentation of the financial statements

The financial statements of the Company are prepared in accordance with Luxembourg legal and regulatory requirements concerning Undertakings for Collective Investment and with generally accepted accounting principles in Luxembourg (Luxembourg GAAP).

##### b) Valuation of assets

- 1) The valuation of any transferable securities traded or listed on a stock exchange is made on the basis of the closing price as at the Valuation Day unless such price is not representative.
- 2) The value of any transferable securities traded on another regulated market is determined on the basis of the closing price as at the Valuation Day.
- 3) If transferable securities on a dedicated Valuation Day are neither officially traded nor listed on an exchange or regulated market, or in the case where, for securities officially listed or traded on a stock exchange or another regulated market, the price as determined pursuant to paragraphs 1 and 2 here above is not representative of the true value of such transferable securities, the valuation is made on the basis of their likely value of realisation, estimated with due care and good faith by the Board of Directors of the Company.

##### c) Acquisition cost of securities in the portfolio

The acquisition cost of the securities held by the Sub-Fund that are denominated in currencies other than the reference currency of the Sub-Fund is converted into this currency at the exchange rate prevailing on the date of purchase.

##### d) Net realised gain/(loss) on sales of securities

The realised gains and losses on sales of securities are calculated on the basis of the average acquisition cost and are disclosed net in the statement of operations and other changes in net assets.

##### e) Investment portfolio income

Dividend income are recorded at the ex-date, net of any withholding tax.

##### f) Conversion of foreign currencies

Cash at banks, other net assets, liabilities and the market value of the securities in portfolio expressed in currencies other than the reference currency of the Sub-Fund are converted into this currency at the exchange rate prevailing on the date of the financial statements. Income and expenses expressed in currencies other than the reference currency of the Sub-Fund are converted into this currency at the exchange rate prevailing on the date of the transaction. Net realised gains or losses on foreign exchange are disclosed in the statement of operations and other changes in net assets.

##### g) Combined financial statements

The combined financial statements of the Company are expressed in USD and are equal to the corresponding items in the financial statements of the Sub-Fund.

## THE STRALEM FUND

### Notes to the financial statements (continued)

as at 30th June 2018

---

#### h) Transaction fees

Transaction costs disclosed under the item "Transaction fees" in the expenses of the statement of operations and other changes in net assets are mainly composed of broker fees incurred by the Company and of fees relating to liquidation of transactions paid to the depositary.

#### **Note 2 - Management Company and Investment Management fees**

The Board of Directors of the Company has appointed KREDIETRUST LUXEMBOURG S.A. as the Management Company to provide management and administration services.

In consideration of its services, the Management Company is entitled to a Management Company fee payable monthly and calculated on the basis of the average net assets of the Sub-Fund at the annual rate of 0.03% with an annual minimum of EUR 20,000.

The Management Company has appointed STRALEM & COMPANY INCORPORATED as the Investment Manager of the assets of the Company.

The Investment Manager is entitled to an Investment Management fee payable monthly and calculated on the basis of the average net assets of the Sub-Fund at an effective annual rate of 1.3% for Category A shares and 0.8% for Category I and Category DI shares.

The Investment Management fee is disclosed in the statement of operations and other changes in net assets under the item "Management Company and Investment Management fees" together with the Management Company fee.

The Board of Directors of the Company decided to implement a limitation of the fees borne by the Company through the use of a Total Expense Ratio Cap ("TER Cap"). Further information is provided in Note 7.

#### **Note 3 - Marketing coordinator fee**

The Company and the Management Company have appointed two Marketing Coordinators (IPA INVESTMENT PRODUCTS ADVISORY S.A., and AMIRA-CAPITAL GmbH), who, acting under the oversight of the Management Company and under direction of the Board of Directors of the Company, assist in the development of the Company by proposing new marketing initiatives and ideas for entry into new markets. The Marketing Coordinators also help produce and maintain marketing support materials such as product literature and technical guides for Distributors.

For their services, the Marketing Coordinators receive an incentive fee of 0.2% on the contributed net assets p.a. for Category A shares and 0.144% on the contributed net assets p.a. for Category I and Category DI shares.

This fee is disclosed in the statement of operations and other changes in net assets under the item "General Distribution and Marketing fees".

#### **Note 4 - General distributor fee**

The Management Company has appointed CARNEGIE FUND SERVICES S.A. as the General Distributor of the shares of the Company.

## THE STRALEM FUND

### Notes to the financial statements (continued)

as at 30th June 2018

---

The General Distributor is entitled to an annual fee payable monthly and calculated on the basis of the average net assets of the Sub-Fund at the annual rates of 0.08% for Category A shares and 0.055% for Category I and Category DI shares.

This fee is disclosed in the statement of operations and other changes in net assets under the item "General Distribution and Marketing fees".

#### **Note 5 - Administration costs**

The item "Administration costs" disclosed in the statement of operations and other changes in net assets is mainly composed by the fees incurred for the administration of the Company.

#### **Note 6 - Subscription duty ("*taxe d'abonnement*")**

The Company is governed by Luxembourg law.

Pursuant to the legislation and regulations in force, the Company is subject to an annual subscription duty ("*taxe d'abonnement*") of 0.05% for Category A shares and 0.01% for Category I and Category DI shares (reserved to Institutional Investors) which is payable quarterly and calculated on the basis of the net assets of each category of shares on the last day of each quarter.

#### **Note 7 - Total expense ratio ("TER")**

The TER disclosed under "Statistical information" of this report is calculated in accordance with the "Guidelines on the calculation and disclosure of the TER of collective investment schemes" issued by the Swiss Funds & Asset Management Association "SFAMA" on 16th May 2008 as modified on 20th April 2015.

The TER is calculated for the last 12 months preceding the date of these financial statements.

Transaction fees are not taken into account in the calculation of the TER.

By way of a circular resolution taken by the Board of Directors on 7th June 2011, the Board of Directors of the Company decided to implement a limitation of the fees borne by the Company through the use of a Total Expense Ratio Cap ("TER Cap").

By way of a circular resolution taken by the Board of Directors on 9th August 2017, the TER Cap percentages are fixed for the accounting year 1st July 2017 - 30th June 2018 as follows:

TER Cap Category A shares: 2.19%,  
TER Cap Category I and DI shares: 1.53%.

The TER Cap is expressed as a percentage of the Net Asset Value for each Category of shares. The defined TER Cap includes any and all fees paid by the Company with respect to each Category of shares (notably the Investment Management fees, the General Distribution and Marketing fees, the Management Company, Depositary and Administrative Agent fees, as well as all other costs and expenses borne by the Company) excluding the transaction costs relating to purchases on sales of securities.

The Sponsor has agreed to bear the risk of any Category of shares exceeding its defined TER Cap. If the TER actually incurred for a given Category of share exceeds its TER Cap, the Sponsor will reimburse the difference to the Company. In the event that the TER actually incurred for a given Category of shares falls below its TER Cap, the residual amount of the TER after deduction of all fees paid by the Company

## THE STRALEM FUND

### Notes to the financial statements (continued)

as at 30th June 2018

---

and costs and expenses borne by the Company shall be used to reimburse any outlays made by the Sponsor during the fiscal year. Any residual amount not used to reimburse the actual outlays of the Sponsor shall remain in favour of the Company. The TER of a given Category of shares will in no event exceed such Category of share' TER Cap.

During the year ended 30th June 2018, the effective TER exceeded the "TER Cap" for an amount of USD 75,574.41. This amount is recorded under the caption "Management Company and Investment Management fees" in the statement of operations and other changes in net assets.

# THE STRALEM FUND

## Additional information (unaudited)

as at 30th June 2018

---

### 1 - Risk management

As required by Circular CSSF 11/512, the Board of Directors of the Company needs to determine the global risk exposure of the Company by applying either the commitment approach or the VaR ("Value at Risk") approach.

In terms of risk management, the Board of Directors of the Company decided to adopt the commitment approach as a method of determining the global exposure.

### 2 - Remuneration

As at 31st December 2017, the total remuneration of the Management Company KTL, staff member is split into a fixed and a variable remuneration:

-Fixed	EUR 2,662,422.94
-Variable	EUR 120,900.00

Number of employees:

-26 headcount

Aggregated remuneration of the Conducting Officers remuneration is EUR 731,065.92.

Details of the Management Company's updated remuneration policy, including a description of how remuneration and benefits are calculated, are available on the website <https://www.kbl.lu/en/legal-information/regulatory-affairs/>.

### 3 - Information concerning the transparency of securities financing transactions and of reuse of cash collateral (regulation EU 2015/2365, hereafter "SFTR")

During the reporting period, the Company did not engage in transactions which are subject to the publication requirements of SFTR. Accordingly, no information concerning the transparency of securities financing transactions and of reuse of cash collateral should be reported.