

Mid Cap Equity Commentary—2nd Quarter 2017

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US stocks added to first quarter 2017 gains, with the S&P 500® Index rising over 3% in the second quarter. The Mid Cap fund, institutional shares, returned 2.91% in the second quarter, outperforming the Russell Midcap® Index return of 2.70%.

In the second quarter, the industrials and consumer discretionary sectors were the strongest drivers of relative performance in the fund. The majority of this outperformance was the result of stock selection. Portfolio holdings A.O. Smith (heating and water treatment equipment) and Expedia (online travel services) outperformed. The fund remains overweight the industrials sector but underweight the consumer discretionary sector due to the negative relative growth expected from traditional consumer industries such as retail and restaurants. Disruption by e-commerce providers, notably Amazon, has dampened earnings growth of traditional retailers. In addition, consumers continue to shift spending to “experiences” as opposed to “things”. Portfolio holding Norwegian Cruise Line Holdings is well positioned to

capitalize on this trend and remains one of the larger weightings in consumer discretionary.

The technology sector also contributed to relative performance. Long time fund holding, CoStar Group, a provider of commercial real estate services and software, as well as semiconductor company Lam Research, each contributed to outperformance. The fund remains overweight the technology sector though some gains were harvested from semiconductor company Microsemi Corporation.

Healthcare posted the strongest absolute return of any Russell Midcap sector, rising 10%. The sector detracted from relative performance, however, as Wright Medical Group declined and the fund did not own several benchmark outperformers.

The energy sector was another detractor, posting a 12% decline in the Index—more than the commodity price. Portfolio holdings Newfield Exploration, Devon Energy, and

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Continental Resources, all of which are more sensitive to the price of oil, declined the most.

As evidenced by economic indicators including interest rates, GDP, consumer confidence, manufacturing activity, and employment, we believe that the U.S. economy is on solid footing. If these indicators continue to improve, it would provide a stable backdrop for stocks, which could continue to outperform. However, we acknowledge the potential for a market pullback which may result from political developments, a sector rotation (from “Growth” back to “Value”), unexpected interest rate increases, or other exogenous market scares. We would generally view such a market pause or pullback as an opportunity to invest in compelling long-term growth companies like the ones held currently in the fund.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

For a list of the current quarter end top ten holdings, please [click here](#). Fund holdings and sector allocations are subject to change at any time and are not a recommendation to buy or sell any security. References to specific investments or other funds should not be construed as a recommendation of the Fund or the Adviser to buy or sell securities. **Current and future portfolio holdings are subject to risk.**

Mutual fund investing involves risk. Principal loss is possible. Medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Investment in IPOs can be volatile and can fluctuate considerably. IPOs can have a magnified impact on funds with a small asset base. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods.

The Russell Midcap® Index is a subset of the Russell 1000® Index and includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Standard & Poor's 500 Index (S&P 500®) is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. It is not possible to invest directly in an index.

Earnings growth is the annual rate of growth of earnings from investments.

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