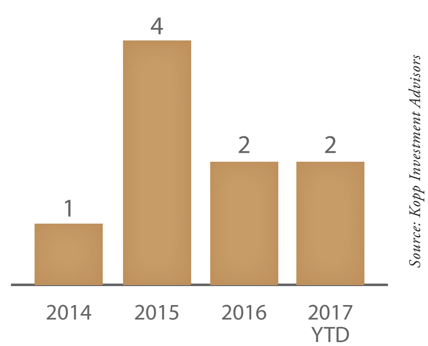
ACQUISITIONS BOLSTER PORTFOLIO RETURNS; THIS YEAR NO DIFFERENT

An important component of our portfolio returns is the contribution from companies being acquired for a premium to the current stock price. In our small cap Emerging Growth strategy, we typically have a few companies acquired every year. So far this year, we have had two companies announce they are being acquired: Akorn and NxStage Medical. In 2016, IntraLinks and Ruckus Wireless announced they were being acquired. 2015 was an even busier year with four portfolio companies announcing they were being acquired. Since 2014, the typical premium (difference between the acquisition price and most recent stock price at the time of announcement) has been approximately 30%. In our large cap Total Quality Management (TQM) strategy, portfolio companies are far more likely to be an acquirer. That said, TQM portfolio companies can still be acquired as evidenced by Amazon.com acquiring Whole Foods Market earlier this year.

We are investors, not speculators, so we will not buy a stock based solely on the possibility of an acquisition. That said, it may be part of our investment thesis. In addition, the attributes that cause us to invest in a company are often the same characteristics that make the company a strong acquisition candidate: a unique product offering, compelling market opportunity, good profitability (or potential profitability) and a stock price below intrinsic value.

Announced Acquisitions/Mergers in Emerging Growth Strategy



All of the portfolio companies acquired over the last four years have been acquired by a strategic buyer such as a competitor, partner or a company in an adjacent market. A strategic acquirer may pay a higher price than other potential acquirers in light of cost synergies, potential cross-selling opportunities and the purchase usually strengthens the acquirers strategic positioning.

Sometimes the financial press may report on a potential acquisition and the stock price may rise on speculation. When this happens, we may sell a portion or the entire position if we no longer view the risk-reward as favorable. For example, in our large cap TQM strategy we sold our entire Nordstrom position in August because the market was pricing in the potential for the Nordstrom family to acquire the company, which we viewed as unlikely under current market conditions. Then in October, the stock price declined after the Nordstrom family announced they were no longer considering acquiring the company this year.

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Looking forward, we believe the environment for additional merger and acquisition (M&A) activity remains favorable with strong corporate balance sheets, low interest rates and a more favorable regulatory environment. Furthermore, a lower tax rate for repatriated foreign cash could bring more cash into the U.S. and accelerate the pace of M&A. Bigger picture, we continue to have a positive outlook for the stock market. We believe stocks can grind higher as corporate earnings growth remains strong, interest rates remain low and corporate tax rates could decline. That doesn't mean there won't be surprises and volatility, but the global economic backdrop is constructive and suggests further gains ahead.

—Dan Garofalo & Adam Engebretson
Senior Portfolio Managers

CLIENT SERVICE CONTACTS

Our Portfolio Managers Dan Garofalo and Adam Engebretson are the best contacts for any client service needs you may have.

Both Portfolio Managers are available to discuss your portfolio or any questions you may have. As always, you can reach our office at 800-333-9128. Dan can also be reached at 952-841-0457 and Adam can be reached at 952-841-0452.

DAN GAROFALO
Senior Research Analyst, Senior Portfolio Manager

Dan Garofalo joined Kopp Investment Advisors in 2013 and currently serves as Senior Portfolio Manager, Senior Research Analyst and is a member of the firm's Investment Committee. He focuses on a broad range of health care areas including medical devices, diagnostics, drug development and health care infotech and brings more than 10 years of health care industry and investment experience in managing client portfolios. Prior to joining Kopp Investment Advisors, Dan was an equity research analyst at Piper Jaffray and also worked for a major pharmaceutical company. Dan holds an M.B.A. from the Carlson School of Management at the University of Minnesota as well as a B.A. in Business from the University of St. Thomas in St. Paul, Minnesota.

ADAM ENGEBRETSON, CFA
Senior Research Analyst, Senior Portfolio Manager

Adam Engebretson joined Kopp Investment Advisors in 2015 and currently serves as Senior Portfolio Manager, Senior Research Analyst and is a member of the firm's Investment Committee. He focuses on the technology and consumer sectors. Prior to joining Kopp Investment Advisors, Adam was an equity research analyst at Piper Jaffray covering several industry groups. He began his investment career in 2005 with Raymond James Financial Services. Adam holds an M.B.A. from the Carlson School of Management at the University of Minnesota as well as a B.A. in Business from Bethel University in St. Paul, Minnesota. He is a Chartered Financial Analyst and a member of the CFA Society of Minnesota.

REMINDER Kopp Investment Advisors is an investment adviser, not a financial planner or financial consultant. We manage your account for long-term capital appreciation. Assets allocated to the Emerging Growth strategy should represent the aggressive equity portion of an overall portfolio, while assets allocated to the TQM strategy should represent that portion of an overall portfolio with growth as its primary goal. Our investment strategies involve risks, including liquidity risk, market risk and management risk. Each respective investment strategy should be used in a program of diversified investing and not as a complete investment program. You should let us know immediately in writing of any material change in your circumstances that might affect the appropriateness of your investment strategy or the manner in which we manage your account. We rely on you to keep us up-to-date.

 October 17, 2017