For Immediate Release to Tartan Student Fund

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Summer Portfolio Updates

Carnegie Mellon University, – October 25, 2017 – A review including outlooks for each Group.

On some positive news, the TSF Portfolio is up 10.4% since October 2016. However, the S&P 500 is up a considerable amount more, showing a return around 20%. Our portfolio has a smilair beta to the overall market, due to our similair sector allocation.

1. **Consumer Discretionary & Staples**
   Our single name selections of Nike and KHC have proved to be a lag on the group, but carried by the ETF's the group has had solid prefromance over the year. Our Nike postition has continuted to weigh on the portfolio despite the trim in late 2016 and has been rangebound for almost 18 months now. As per the broader investment themes, Nike's sales growth and projected sales growth has not kept up with the broader sector and investors have been cautious about "Just doing it." As a group, I would recommend a revaluation of the KHC theses, parituclarly in the revenue growth catalysts. Both the Consumer Staples and Discretionary ETFs have preformed well, although one would attribute this to the high correlations to the index. Our outlook moving foward varies per industry sector but with personal incomes rising (supplemented by record amounts of household credit), we may see further earnings growth in our consumer buisnesses.
2. **Healthcare**
   Our two pharmactuial related postions Gilead and McKesson have not recovered to their previous highs due to pressure on drug prices. Gilead has recovered through the summer due to new delveopements in their storied cancer related treatments, but remains a 20% loss in the portfolio. Fundamentally, McKesson remains a strong player in the distibution space and I believe our thesis still holds. Like a handful of TSF picks in the past, we were incredibly skilled at buying McKesson at it's 2 year high and the postion is down 21%. Our healthcare portfolio has been one of the hardest for us to manage, but our current holdings are bouyed by our large postion in UNH (up 23% since March) and the strong preformance of the ETF XLV.
3. **Power & Utilities**
   The PU group has rebounded strongly through the summer, primarily due to a slight rebound and stabilization of oil and gas prices. With supply-demand dyamnics in the crude markets stabliziling, managment teams have CAPEX has been cut amongst many Exploration and Production companies. Thankfully we have been underweight E&P for most of the fund's history. Our Midstream and Downstream positons in Spectra Energy Partners (Midstream

MLP) and PSX (Refining and Marketing) have preformed well, but this is becoming a crowded trade . We have seen $PSX recover to a stable level, making back a large loss.
With respect to utilities, we find the bonb proxy theme has held through most of 2017. With real yeilds lower than expected, utilities with the highest (though often slower-growing) dividend yields soared to historical valuation peaks. Agian, we want cash producing, strong dividend businesses from this group moving forward. $DUK has preformed inline with the broader ETF ($XLU) up roughly 17% YTD. Companies with lower dividend yields and higher earnings growth fell to attractive valuation levels.

4. **Industrials & Materials**
   The promise of an infastructure has boosted this group
   Our "accidently passive" strategy has proved fairly strong in this group. Our ETF ($XLB, $VIS) positions have been resilient. We are looking for businesses that are not dependent of rising commonidty prices as we do not have confidence in the commodity rebounding. This is mainly due to

5. **Tech, Media & Telecom Group**
   With the EOS purchase of AT&T, we are beginning to scale back on the ETF's. We missed a 20% exit opportunities in our **Telecom ETF** ($VOX) 10% gain, but we are still confident in the strength in this industry. We have maintained exposure to the **PowerShares Dynamic Media ETF**, which may be cut as it has proven to lack catalysts to move upwards with the broader tech group. After our purchase of AT&T, the TMT group pitched a riskier play in cloud computing with Oracle. ORCL seems to be our loser in this group partly due to disappointing earnings (revenue down 20%, but only a linear decrease in EPS) but markets may react positively to the $9 billion deal to buy NetSuite, announced in mid-2016.

Summary

With current EPS for the S&P 500 at around
We believe that this market could be pushed further given that low real yields to support higher than history steady-state PEs across the markets. The expectation of tax cuts and possible cyclical acceleration have weighed heavily on certain sectors, further driving returns.
We see some other themes in the value vs. growth tilt. The Russell 1000 Value Index has returned 9.7 percent in the first 10 months of 2017, while the Russell 1000 Growth Index has gained 24 percent.
Investors in the past year have been much more concerned with sales growth and forward sales growth. Many value funds have underpreformed the broader market, as investors look to buy disrupitve buisnesses, at the expense of today's profits. We expect this trend to continue so long as yeilds stay low and thus the Equity Risk Premium can compensate investors.
With a strong earnings season, we might see some undervalued stocks realize gains, but most equities have a smaller range to advance given high valuations. I attached a chart to this memo that uses one of my favorite fundamental indicators, the The Advance-Decline Line (AD Line). It calculates "Net Advances", which is the number of advancing stocks less the number of declining stocks. Net Advances is positive when advances exceed declines and negative when declines exceed advances. As we can see, the amount of stocks advancing in the past month has declined 10%, so we expect the S&P index to slow it's advance from the *Post Brexit All-Time Highs*

Please reach out if you have any questions or comments regarding the portfolio.

Thank you,

Research, Risk and Strategy

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