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## For Immediate Release to Tartan Student Fund

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### Summer Portfolio Updates

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**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 an interesting property with regards to our

#### 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 performance over the year. Our Nike position has continued 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, particularly in the revenue growth catalysts. Both the Consumer Staples and Discretionary ETFs have performed well, although one would attribute this to the high correlations to the index. Our outlook moving forward 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 businesses.

#### 2. Healthcare

Our two pharmaceutical related positions 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 developments in their storied cancer related treatments, but remains a 20% loss in the portfolio. Fundamentally, McKesson remains a strong player in the distribution 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 its 2 year high and the position is down 21%. Our healthcare portfolio has been one of the hardest for us to manage, but our current holdings are buoyed by our large position in UNH (up 23% since March) and the strong performance 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. EOS transition into \$RYE was a strong move, up 15% in a little over 5 months. We have seen \$PSX recover to a stable level, making back a large loss. With respect to utilities, we find the "Thirst for Yield" outweighs the risk in a probable Fed Rate Hike this December. We will be encouraging cash producing, strong dividend businesses from this group moving forward.

#### 4. Industrials & Materials

Our “accidently passive” strategy has proved fairly strong in this group. Our ETF (\$XLB, \$VIS) positions have been resilient, with a slight retracement this September. We are looking for businesses that can capture some rebound in commodities prices, but considering currency fluctuations in their thesis.

#### 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

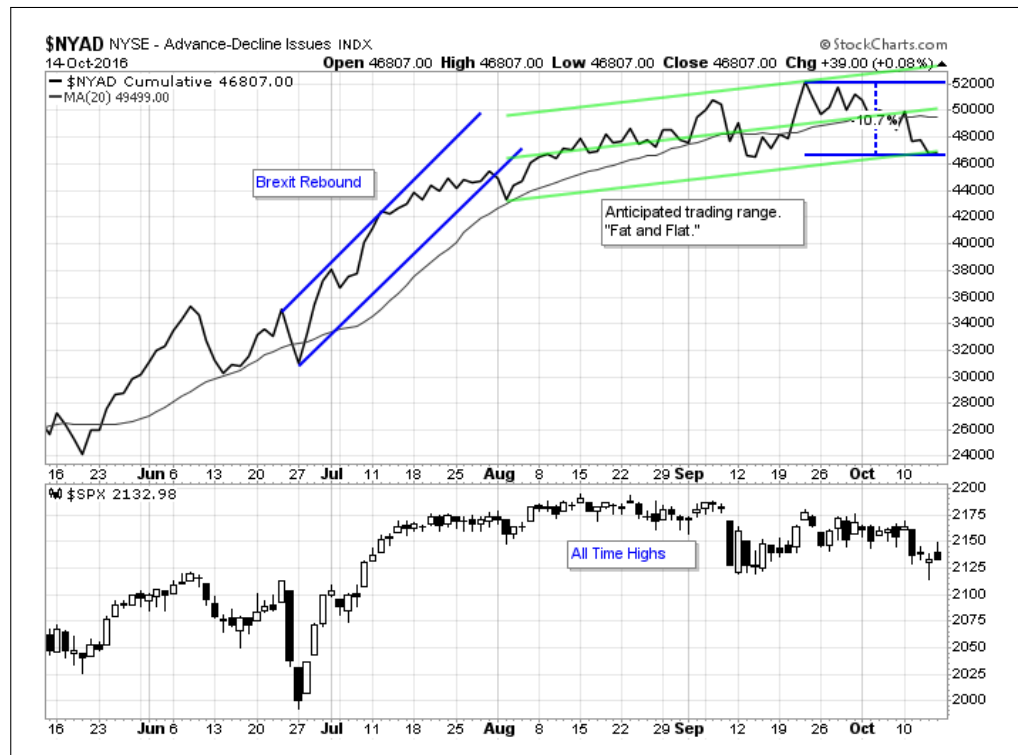
With current EPS for the S&P 500 at around

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 underperformed the broader market, as investors look to buy disruptive businesses, at the expense of today's profits. We expect this trend to continue so long as yields 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 its 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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