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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 18.5%. However, we are not fully invested; when adjusting for the cash drag, the S&P has returned 16.1%. Our portfolio has a smilair beta to the overall market, due to our similair sector allocation. I have attached a chart outlining our underpreformance compared to the large cap index.

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**
   Sales and expansion has been the name of the game for 2017, with profitablity taking a backseat for now. The sales growth has pushed individual names higher but the index has stagnated. It has struggled to break the mid 2015 valuation (31x TTM Earnings). Our two pharmacutical 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 theirs 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. **Finanicials**

The finacials portfolio is our strongest preformer with Visa proving to be our best preforming conviction pick in the portfolio. We timed our sector roation well and our $VHF postion benefited greatly from the Election. While Fifth Third Bancorp has preformed with it's peers of regional banks, our timing missed much of the "Trump Bump" this sector enjoyed through early November of 2016. We remain cautious of this sector's dependence on regulatory change, but earnings have picked up and CCAR told us a signficant amount regarding bank's. We still believe major banks are still undevalued comapred to the S&P and would reccomened looking to find companies that would benefit in the backdrop of rising rates.

4. **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 bond 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.
5. **Industrials & Materials**
   The promise of infastructure spending has boosted these sectors to cycle highs. However, we are wary that this could be spectualtory inflows to the sector. The sector has out preformed and we have seen our ETF ($XLB, $VIS) positions up almost 30% since last October. 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 slower growth in commodity producing emerging markets and the effects currency impacts.
6. **Tech, Media & Telecom Group**
   With the EOS purchase of AT&T, we are beginning to scale back on the ETF's. We have allocated away from Telcom in this portfolio, which has proven to be an effective move. Since the funds reorganization, we have maintained exposure to the **PowerShares Dynamic Media ETF** which has had dissapointing returns versus the sector and broader markets. The TMT group has positioned a portfolio of realitively cheap stocks for this stretched sector, with a P/E TTM. In recent develpoments, AT&T missed Q3 analyst estimates and investors are worried about the lack of synergies with the DirectTV merger completed last year and mobile subscribers are shrinking. The stock has seen a volitile 19 months in our portfolio and we should be looking to reevaluate our thesis moving foward.
   Like a few of our other portfolio groups, our clear winner in the TMT portfolio is the ETF $IYW. It's slow advancement

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.

Looking at the fund's history, the biggest market moves have been in Technology and Consumer Stocks. All other sectors have entered some sort of "Bull Market" since 2014, in what is most likely a pattern of sector rotation. Besides sharp corrections in from December 2015 to January 2016 (-14%), Technology and Consumer (both staples and discretionary) have followed (and driven) the wider trend of the bull market in the past 3-4 years.

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 accomodative rates, decent earnings and the (overly?) optimitic ideas of tax cuts, de-regulation and fiscal spending, we can anticapte stocks to keep going crawling upwards. Many consider the current valuations uncharted territory, but we see earnings "catching up" to support current levels, despite a gradual tightening enviroment. Are we at Tech Bubble levels? No.

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

Thank you,

Research, Risk and Strategy

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