

April 24, 2018

Dear Friend,

It was a good first quarter for our All-Cap and Mid-Cap composites as we achieved our goals of preserving and growing capital in a turbulent time. While the S&P 500 had its first quarterly loss since 2015, our focus on growing businesses with recurring revenue allowed us to make money while the market declined.

I am writing this letter as a fellow investor, not an economist. As such, let me cut through the clutter that a 24-hour news cycle can create and answer the three most important questions related to our portfolio:

- 1) What happened in the quarter?
- 2) What is likely to happen going forward?
- 3) How is the portfolio positioned for the future?

What Happened in the Quarter? In the first quarter our All-Cap and Mid-Cap portfolios rose in value even as the S&P 500 had its first quarterly loss since 2015. The S&P 500 retreated for three main reasons: 1) the tariffs proposed by President Trump 2) the Facebook privacy scandal and 3) the rise in the yield of long-dated bonds. Our portfolio was able to rise as we have less than market exposure to 1) exporters 2) Facebook and 3) bond proxies like utilities and REITs.

What is Likely to Happen Going Forward? The first quarter showed a resurgence of stock market volatility with the market having more 1% moves in 90 days (up and down) than it had for the 365 days of 2017. As we predicted in our 2018 outlook, this will continue. The quietly rising market we experienced in 2017 was an anomaly that will not be repeated soon. Instead we now seem to be living in a world where President Trump makes statements that upset the status quo and the stock market reacts negatively before recovering. Will the U.S. launch a trade war? Will the U.S. launch a military war? I don't know. I just know to expect more uncertainty.

How is the Portfolio Positioned for the Future? We are positioned very differently than the S&P 500 with a focus on payments, healthcare and non-bank financials. In these uncertain times we want to own business models that have certainty. It is a certainty that more of the world's transactions will move from cash to credit. We own companies that enable credit card transactions. It is a certainty that the world's population is aging. We own companies that benefit from this trend as they sell health insurance, medical devices and data to pharmaceutical companies. It is a certainty that people will continue to need insurance and financial exchanges as they have for hundreds of years. We own those as well.

We expect that the coming year will be one filled with both volatility and opportunity for a dispassionate active investor that can profit from dislocations. Investors in passive funds will get the volatility, but none of the opportunity.

Wishing you a great spring.

Sincerely,



Manny Weintraub, CFA
Founder and Principal