Portfolio Summary of each Titan Strategy: Core Equity, Core Fixed Income, and Opportunities that includes strategic changes and specific actions taken.

Titan – Strategy Review

Portfolio Review 1H 2020

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Titan Core Equity		
No. of Holdings	Benchmark	Beta
35	MSCI ACWI	0.98x

Strategy Description

Titan Core Equity seeks to outperform the MSCI ACWI (global equity index) over the long term (3 years) on an annualized basis. The investment process and filter focuses in on profitability and valuation, which can lead to overweighting different sectors and/or factors based on where the best opportunity resides.

All firms held in the strategy go through an Adjusted Present Value (APV) model to provide further conviction in the firm's ongoing profitability as well as ability to capture market opportunities in terms of escalating growth or wider margins. Sensitivity analysis is also conducted on each holding to understand the margin of error each holding has relative to the perceived value of the firm.

Lastly, qualitative inputs are considered such as the management of the firm, number of substitutes, network effect, buyer power, supplier power, and overall competition. This brings together profitability, valuation, and whether the company management can continue to execute in its current fashion.

Ongoing Trends

- Overweight Consumer Discretionary: Low unemployment, strong wage growth, tax reform, and stable inflation provide a strong outlook for the US consumer. The incremental income from the above factors will serve as a tailwind for restaurants, retail, automotive maintenance, and home repair.

- Overweight Information Technology: Growth from online shopping, mobile advertising, cybersecurity, digital wallets, blockchain technology, and cloud migration all serve as positive catalysts for specific subsectors of technology. These trends show little signs of slowing and could be argued as staple goods compared to luxuries.

- Overweight Cybersecurity: Cybersecurity spending is forecasted to exceed $1T from 2017 – 2021. This increase in spending is leading to a projected increase of 12-15% in cyber security spending on a per annum basis. This demand for cybersecurity can largely be traced to consumer and corporate data increasingly being stored on a computer. Thus, it is paramount to protect this data whether the economy is seeing robust or sluggish growth.

- Underweight Financials: The current rate environment is just not ideal for banks. The relatively flat yield curve is keeping a floor on deposit rates while consumers demand lower loan rates. Thus, bank net interest margins get pinched. In addition, trading is increasingly being done online and not through a broker. By limiting interest margin and removing trading revenue, banks in general have a foggy outlook at best.

Specific Changes

- **SELL**: Boeing (BA) – Initially management expected the 737 MAX to be off the ground by the end of the year. However, this time has come and gone with little transparency in terms of timeline. In addition, customers are beginning to collect penalties from management for failure to deliver. Lastly, these planes are increasing costs as management is forced to pay for storage instead of monetizing the planes.

  Current Share Price - $324.15 Projected Share Price - $301.72

- **SELL**: C.H. Robinson Worldwide (CHRW) – Shipping volumes not only for management in 2019, but happened in trucks, air, and ocean. Management blamed tariffs weighing on global trade, but firms such as AMZN are increasingly bringing their shipping in house as well as creating competition for management. The brokerage market is also becoming more transparent and largely turning a once value add industry into a commodity.

  Current Share Price - $80.74 Projected Share Price - $84.68

- **SELL**: Capri Holdings (CPRI) – Mall's are quickly becoming a thing of the past as consumers focus on e-commerce. Given Michael Kor's, Versace, and Jimmy Choo's typical location this has resulted in less and less foot traffic. The recent Hong Kong riots has effectively caused all stores in that area to shut down. Typically, this would not be a huge factor, but Hong Kong is one of the most profitable areas in Asia for the firm. Shares are at a meaningful discount, but management is also increasing leases (effectively debt) and painting a picture of higher margins despite all the headwinds above. Ultimately, this firm was marked with too many qualitative yellow flags.

  Current Share Price - $36.79 Projected Share Price - $52.33

- **SELL**: Clorox (CLX) – Management has been promising better margins for the past 2 years, but have failed to deliver. This lack of expansion has to do with an elevated marketing budget that has not resulted in any incremental market share gain. Thus, the brand equity of Clorox products seems to be losing some of its steam.

  Current Share Price - $157.70 Projected Share Price - $108.35

- **SELL**: Merck & Co. (MRK) – There is not much to complain about from this firm as Keytruda is growing at 64% while Lynparza and Lenvima are growing north of 30%. However, Bristol-Myers has been approved to provide a competitive treatment that may weigh on market share and price. In addition, the rumblings of drug price control could quickly spill into the cost of "life saving" chemotherapy.

  Current Share Price - $90.97 Projected Share Price - $101.55

- **SELL**: Micron Technology (MU) – Management has been calling for a bottom in NAND and DRAM demand for the past 6 months, however, no meaningful evidence of this bottom has materialized. Despite no material change in revenue or profitability, shares appreciated nearly 70% in 2019. Lastly, the firms trade at the highest valuation in over 5 years. Thus, the firm shares largely reflect an optimistic scenario that has not materialized.

  Current Share Price - $57.66 Projected Share Price - $50.32

- **SELL**: NVIDIA (NVDA) – It should be noted from a fundamental standpoint, management has done an excellent job providing a more robust GPU to all new revenue channels including automotive, gaming, IA, and 5G. In addition, the next-gen video game consoles are expected to be released over the coming two years and will create ongoing demand. However, all this positivity has been priced in and it simply comes down to value. Shares are trading at their highest multiple in the past decade.

  Current Share Price - $249.28 Projected Share Price - $228.87

- **SELL**: Ross Stores (ROST) – The discount retailer has done a great job picking up market share from malls. However, the firm does not have an online marketplace at a time when consumers are shopping more and more online regardless of affluency. In addition, while it may appear the firm has little debt to speak of, long-term lease arrangements quickly change the valuation picture. Lastly, discount retail is a thin margin business that has little room error and little ability for management to ramp up costs to develop that online marketplace.

  Current Share Price - $117.78 Projected Share Price - $104.27

- **SELL**: VeriSign (VRSN) – What's not to love about the firm that controls the .com, .net, and possibly .web names? The short answer is nothing, however, this long answer is everything has a price. Domain registrations, renewals, and margins are all healthy and continue to grow at a mild pace. Nonetheless, shares have largely been rewarded and like MU and NVDA this simply comes down to valuation. Shares are pricing at a near 30% premium.

  Current Share Price - $214.00 Projected Share Price - $151.18

- **BUY**: Applied Materials (AMAT) – The partial resolution in trade wars in conjunction with an improving demand for wafers is providing a stronger outlook for the firm. In addition, "edging" is becoming increasingly nuanced and sophisticated providing management the ability to not only charge more on a per wafer basis, but also creates a larger barrier to entry. Lastly, the consulting arm of the firm is not dependent on chip demand and might even have a negative relationship. During periods of weak demand, clients will most likely look to the firm to help maximize the utility of the chips they have on file.

Current Share Price - $61.49 Projected Share Price - $68.55

- **BUY**: Booking Holdings (BKNG) – Low unemployment, wage growth, and no wars in developed parts of the world paint a robust outlook for consumer travel. Management also has the ability to provide mobile and digital ads at a time where firms are increasingly adopting this strategy given the target audience compared to a billboard on the side of the road.

  Current Share Price - $2,067.17 Projected Share Price - $2,072.48

- **BUY**: Cabot Oil & Gas (COG) – Whether oil or natural gas, energy has largely been a disappointment since 2014. The Energy Sector has underperformed the S&P by 17.99% since August 2014. This dislocation cannot be ignored any longer as the valuations in this industry are historically cheap. COG is not only located at the ideal natural gas location (Marcellus), but also is one of the few energy firms that has leverage less than 1.0x. Thus, if energy turns around Cabot not only stands to benefit, but also has the balance sheet to weather an ongoing storm in energy.

  Current Share Price - $17.35 Projected Share Price - $24.65

- **BUY**: Citrix Systems (CTXS) – Employees are increasingly working from home or a remote location. This flexibility has come with the advent of developing secure and efficient communications between employer portals and personal phones, computers, etc. In addition, management helps with the integration of customer sales data as well as employee productivity to maximize sales based off season and geography. Lastly, this is one of the few large US technology firms that derives the majority of their revenue from the US.

  Current Share Price - $116.01 Projected Share Price - $182.58

- **BUY**: Delphi Technologies (DLPH) – Autos like energy have entered a period of prolonged weakness. There are multiple things to blame from diesel scandals to worker's strikes, but what cannot be denied is the discount currently priced in for some firms. Delphi trades at a near historical low in terms of multiple at a time when offering GDI, a must have for firms to meet emission standards.

  Current Share Price - $11.21 Projected Share Price - $26.43

- **BUY**: Electronic Arts (EA) – eSports grew 26.7% in 2019 and is projected to grow 9% annualized through 2022. Madden and FIFA stand at the forefront of this growth with user growth of 30%. In addition, management's reach extends outside eSports to popular titles such as Apex Legands and Battlefield. All these titles as well as a host of others not only make money on the game purchase, but in-game purchases (microtransactions). This has effectively created an annuity like cash flow for the video game publisher who historically had highs and lows based off the next popular video game.

  Current Share Price - $109.68 Projected Share Price - $149.98

- **BUY**: Fortinet (FTNT) – Management has benefitted from the cybersecurity industry with this trend only to continue as firms and consumers increasingly adopt online technology. Management has lead the way in product deployment in the corporate market highlighting their value. Election meddling, consumer hacking, corporate hacking, etc. are all ongoing tailwinds that will demand more and more cybersecurity spending.

  Current Share Price - $117.03 Projected Share Price - $173.72

- **BUY**: NIKE (NKE) – Management has cashed in on consumer data and structured some of the most eye catching ads based off affluency, demographics, and geography. In addition, NIKE Direct (online marketplace) has successfully launched and is growing sales at over 10%. This in conjunction with athletic apparel increasingly being worn as "everyday apparel" is setting the stage for ongoing growth regardless if the consumer shops at a mall or online.

  Current Share Price - $103.31 Projected Share Price - $135.22

- **BUY**: YUM! Brands (YUM) – Management is rolling our delivery services to its three franchise chains. As has been shown through SBUX and MCD, this delivery service has largely been a slam dunk for sales in the intermediate term.

All the while, KFC is pushing new meatless options to consumers who are increasingly drawn to alternatives to traditional beef or chicken. Lastly, which could be said for just about any consumer discretionary firm the US consumer is very strong providing a means to eat more often.

Current Share Price - $84.61 Projected Share Price - $105.27

Portfolio Changes

- Underweight Non-$ Exposure - ~55% of the ACWI revenue is generated from the US. Titan Core Equity generates ~38.4% of revenue from overseas. In addition, the 55% generated from US firms does not necessarily mean sold in the US. Thus, Titan's Core Equity has not only increased the overweight to the US, but has done so on the back of a strong US consumer and less idiosyncratic risk from Brexit, war, and oil shocks.

- Increased Mega Caps – Titan Core Equity still carries a negative factor of 0.53 factor to US Size, which is indicative of the strategy's mild overweight to small firms in the ACWI. However, the valuation in Small Cap Growth is nearly at a 50% premium compared to the past 20 years. Thus, Titan has reduced this exposure and strategically shifted to more Small Cap US Value.

- Reduced US Growth – Titan Core Equity carries a 0.38 factor to US Growth, which is less than 2019. This change largely has to do with the relative value US Value firms are currently exhibiting over US Growth firms. The addition, of DLPH and COG are two such examples of increasing the US Value factor.

- Overweight US Software – The software universe still has value given the demand in AI, 5G, cybersecurity, e-commerce, and the digital wallet. Trade wars can have an outsized influence on this industry, but software is increasingly a "need" based product compared to a discretionary item. Whether a recession happens or not, firms will need to keep their foot on the gas in terms of cybersecurity, e-commerce, and digital payments.

- Reduced US Apparel – The growing presence of AMZN and e-commerce has priced multiple brick and mortar retailers at a discount. While a handful of opportunities still exist this presence of e-commerce is having an outsized effect on retailers that are predominantly located in malls. While many have been watching technology, trade wars is having a significant impact on retailers as multiple retailers have cited raw material costs rising on the back of tariffs.

- Lower Portfolio P/E – The potential for an all-out trade war has subsided. However, the biggest risk facing the equity market is that of pure valuation. Thus, Titan is being incredibly sensitive to valuation given the level of the equity market in conjunction with earnings growth. This largely the main reason exposure in AMZN was reduced. AMZN carries a 82.6x multiple and could be the most susceptible to a downturn based off valuation.

Titan Core Fixed Income		
Sectors	Benchmark	Maturity
Treasury, MBS, Credit, Floating	US Bloomberg Barclay's Govt/Credit Index	1 – 10 Years

Strategy Description

Titan Core Fixed Income is an income-producing strategy that invests in a wide range of fixed income products all denominated and issued by US firms. Specific emphasis is given to current interest rate levels, shape of the yield curve, and overall leverage levels.

All fixed income investments are made with the number one priority being safety of principal. Thus, credit evaluation is top of mind and the first barometer used in determining any individual or ETF credit vehicle. Secondly, investments are considered for their ability to generate above risk free income without violating the first principal.

This is achieved by combining top-down macro evaluations in conjunction with bottom-up fundamental research of the fixed income environment and specific firms. This creates an optimal allocation between fixed income classes as well as individual bonds that achieve the two stated principals.

Ongoing Trends

- Underweight Duration – Interest rates only did one thing in 2019 and that was come down even lower. The inversion of the yield curve was been corrected, but consider a 30YR UST only yields 2.40% while a 2YR yields 1.60%. This in conjunction with the duration of a 30YR being 21.5x and a 2YR being 1.9x indicates that for a 0.80% trade up in yield the interest rate magnifies 1,132%. This highlights that long term bonds are relatively risky, but also the significant step up in risk with little incremental reward. Thus, Titan is ~12% short the Intermediate's duration of 3.81x.

- Overweight US Bank Loans – The Fed's action to get inflation at and/or above 2% may result in overnight rates going higher or lower. However, bank loans off a coupon based off the LIBOR. Thus, the coupon is largely a reflection of interest rates regardless if they move higher or lower. In addition, some bank loans even come with interest rates floors that offset the risk of floating rates falling to zero. Lastly, this floating component provides insulation from higher interest rates as the duration of floating rate securities is effectively 0 while carrying a yield of 4.4%.

- Barbell Investment Grade Credit and US Treasury – Investment Grade credit has been positioned to carry a duration of 5-7 while the US Treasury has been positioned to carry a duration of 1-3. The US Treasury position not only affords a stable asset class in times of duress, but also avoids the duration risk of interest rates rising. On the other hand, interest rates often times rise with inflation and/or growth. Investment Grade bonds will have more flexibility to embrace the growth and/or pass on the inflation to consumers and help alleviate the rising interest environment.

Portfolio Changes

- Decrease Investment Grade Exposure – The amount of maturities coming due over the next 5 years could place the investment grade and high yield market in a pinch if the economy were to slip into a recession. However, financials currently have much more cash to pay back the debt if refinancing is not an option. Thus, investment grade still has conservative characteristics, but credit in general is seems stretched given a debt/GDP ratio of ~46.8%provides a higher yield than risk free US Treasuries, but also provides insulation against a recession spilling over into the bond market.

- Increase Emerging Market Debt – While most of the world's focus was on trade wars in 2019, the manufacturing activity of emerging markets improved while developed markets declined. Indonesia, Korea, India, and Russia improved while Brazil and Mexico treaded water. This highlights an improving outlook and grants exposure to countries with middle class growth. Lastly, this vehicle not only provides duration from the US interest rate market, but carries a yield of 4.8%.

Titan Opportunties		
No. of Holdings	Benchmark	ETF Exposure
8	ACWI	36.7%

Strategy Description

Titan Opportunities seeks to identify mispricings in the global market. This spans all company sizes in the US as well as overseas. In addition, ETFs are employed to take advantage of more macro related mispricings while also maintaining liquidity at the portfolio level.

Investments are made by incorporating aspects of Both the Core Equity and Fixed Income approach. Specific factors are expected to maintain a certain quantitative level while also incorporating the macro forces that may influence a given investment.

Ongoing Trends

- Exposure to Emerging Market Equity – Emerging markets are growing at roughly 2% more than developed markets. This is largely in line, but the overall growth in the middle class will position these countries with significant buyer power and the ability to drive their respective economies even higher. This also provides indirect exposure to China, Taiwan, and India as Titan's Core has no direct exposure to this market. Lastly, emerging markets trade at a higher earnings yield relative to the ACWI. All else equal, this would imply emerging market equities are cheaper than their developed world counterparts.

Specific Changes

- N/A

Portfolio Changes

- N/A

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