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 2021

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Titan Core Equity		
No. of Holdings	Benchmark	Beta
27	MSCI ACWI	0.81x

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 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. In addition, technology has turned into a "need-based" service for both consumers and businesses, which has been incredibly apparent during COVID.

- Overweight Cybersecurity: Cybersecurity spending is only going to accelerate as firms gravitate towards the cloud and employees work from home. This will take the shape of increased spending on firewalls, endpoint security, and data encryption. Lastly, the by Russian hackers on the US Government highlights this is a need in any area that relies on digital assets.

- Increased Weight - Healthcare: Healthcare is one of the industries at large that exhibits a more historic multiple compared to the rest of the investment universe. In addition, any expansion of ACA or a Medicare for All option will increase the patient pool for pharmaceutical firms. An additional buffer of growth also lies in consumer putting off elective surgeries and produces. This pent up demand will act as a coiled spring for the industry at large.

- Increased Weight – Financials: The yield curve is finally taking a more steep shape and providing the means for financials firms to make a spread on loans and deposits. This comes with the risk that consumers slow financing in a higher rate environment, but insurance and annuity firms largely avoid this risk if it materializes.

- Decreased Weight – Consumer Staples: Household products enjoyed a robust 2020 as stay at home orders forced consumers to remain in doors. This has not only lead to a high bar to meet for the industry in 2021, but also the risk that consumer's stockpiled goods. Thus, high expectations plus the risk of demand being pulled forward provide s limited growth outlook for the industry.

Specific Changes

- **SELL**: Accenture (ACN) – Revenue has been slowly slipping from 8% to (1%). The book to bill ratio remains healthy, but the lack of travel seems to be hindering the IT consultants. Management will also be accelerating CAPEX to shift the bulk of assets to the cloud and could pinch cash flow in the short run.

  Current Share Price - $252.29 Projected Share Price - $229.16

- **SELL**: Altria Group (MO) – Management is in a legacy industry (tobacco) that is quickly being overcome by cannabis. In addition, the ventures into Juul and Cronos has only cost the firm and highlights a management team that continues to miss on execution. Lastly, regulation and higher excise taxes is always a risk in the backdrop.

Current Share Price - $42.20 Projected Share Price - $36.96

- **SELL**: Electronic Arts (EA) – Despite the video game industry having the tailwind of consumers remaining at home, management has not able to take advantage. Poor game reviews from the Star Wars license to legacy franchises such as Madden is weighing on the firm. This all comes as the cost of producing a video game is set to increase with competition ratcheting up substitutes.

  Current Share Price - $189.44 Projected Share Price - $145.08

- **SELL**: F5 Networks (FFIV) – The cybersecurity firm is falling behind next-gen cybersecurity firms. The legacy firewall offer by the firm is not sophisticated enough to combat modern hackers while peers are offering more robust products. Management has also acknowledged that sales cycles are being extended as large purchase orders are being put off until more clarity on the virus is available.

  Current Share Price - $208.46 Projected Share Price - $207.82

- **SELL**: General Dynamics (GD) – Management's exposure to aerospace (25%) has been a point of weakness as COVID continues to delay deliveries of the G-series. In addition, management acquired CSRA to build out it's IT offering for aerospace and defense, but the segment has remained frustratingly flat from a growth perspective. Lastly, management is now speaking to individuals to buy their G-series, which points to an aimless sales strategy.

  Current Share Price - $156.09 Projected Share Price - $140.34

- **SELL**: Hershey Co. (HSY) – Management showed exceptional resilience in the face of COVID and less consumers shopping between the aisles. However, weakness still abounds at entertainment venues and impulse shopping. Price increases were pushed in 2020 and helped offset volume weakness, but this lever cannot be counted on again to boost revenue as promotions could quickly dial back this tailwind.

  Current Share Price - $147.53 Projected Share Price - $161.77

- **SELL**: Home Depot (HD) – The provider of all things home renovation saw comparable sales increase 23.2% in 2020. This was a stellar year for the firm and sets an incredibly high bar to repeat in 2021. In addition, management will be spending an incremental $1B on labor as well incremental spending on employee safety. This high growth bar and rising expenses will limit margin growth for the short term.

  Current Share Price - $277.46 Projected Share Price - $274.57

- **SELL**: Kimberly-Clark (KMB) – The demand for tissues and paper towels from the hotel and restaurants industry has all, but disappeared. This is one of the highest margin channels for the firm and gross margin is down 600bp. To combat, management is ratcheting up promotions, which will weigh on margin even more unless volume can offset.

  Current Share Price - $138.75 Projected Share Price - $163.28

- **SELL**: Pepsi Co. (PEP) – The demand from entertainment and restaurants remains incredibly choppy for the firm and is limiting the ability to grow margin. Fortunately snacks have more than offset as consumers have shown a preference for salty snacks during COVID. Unfortunately, the shift from impulse buying to grocery is a net negative for the firm as this mix shift will weigh on margins.

  Current Share Price - $140.14 Projected Share Price - $110.52

- **SELL**: Robert Half Inc. (RHI) – The lack of hiring around the world is causing revenue to fall 24%. In addition, the exposure to SMB along with SMB using more technology to replicate back office tasks is limiting worker demand. Lastly, SMB will most likely engage in temporary workers before making permanent decisions and limit the overall margin profile of the firm.

  Current Share Price - $66.15 Projected Share Price - $58.26

- **SELL**: Starbucks Corp. (SBUX) – Comparable sales remain south of (10%), but shares are trading at a historic high. Management is seeing improvement around the globe (especially in China), but this is simply perfection priced into a story that has several plot holes.

  Current Share Price - $99.24 Projected Share Price - $65.55

- **BUY**: AutoZone Inc. (AZO) – Comparable sales continue to increase double digits as consumers are buying used cars rather than rely on public transportation. The commercial market is still very fragmented and provides management significant runway for growth. Lastly, cash is at an all-time high providing the catalyst to increase the dividend, buybacks, or some other friendly shareholder activity.

  Current Share Price - $1,227.16 Projected Share Price - $1,506.13

- **BUY**: BrightHouse Financial Inc. (BHF) – The name of the game is annuities and life insurance for the financial product firm. The normalization of the yield curve provides the ability to make a spread on investing and client premiums without the risk of higher rates dissuading sales. This wider spread is what will drive the bottom line higher and higher.

  Current Share Price - $40.56 Projected Share Price - $96.49

- **BUY**: Church & Dwight Co. (CHD) – 50% of sales come from cough drops and vitamins. As the world emerges from COVID, mutations will come and go and serve as a catalyst for consumer's to keep inventory of zinc and other proactive health measures. This will benefit one of the highest margin channels for the firm as it is easily shippable via e-commerce providing hedge against another shutdown.

  Current Share Price - $85.54 Projected Share Price - $134.62

- **BUY**: HanesBrands (HBI) – While demand for household products has been pulled forward, the demand for active wear has been pushed off. This has set a very low bar for management to meet and provides a welcoming scenario for new CEO Stephen Bratspies to turn this apparel company around.

  Current Share Price - $15.50 Projected Share Price - $27.81

- **BUY**: MarketAxess Holdings Inc. (MKTX) – Technology is quickly gaining steam in the fixed income universe. The days of calling brokers to get orders filled are over and now the bulk of volume is moving to electronic exchanges. Management is the leader of this front and will benefit as this trend continues to take shape and provide the means to expand into municipal bonds and mortgage backed debt.

  Current Share Price - $509.19 Projected Share Price - $592.50

- **BUY**: Sealed Air Corp. (SEE) – E-commerce is here to stay and the maker of Bubble Wrap will benefit from this shift in consumer preferences. In addition, management will now be pushing equipment sales to offer up cost savings to clients and further ingrain themselves in the distribution process. Lastly, the firm multiple is trading near a 5 year low.

  Current Share Price - $44.56 Projected Share Price - $55.52

- **BUY**: VeriSign (VRSN) – A monopoly on the .com and .net domain names provides a stable, growing, annuity like cash flow all firms dream. In addition, the growth in e-commerce is only increasing .com registers and focusing businesses of all sizes to pour more resources into their online presence.

  Current Share Price - $191.79 Projected Share Price - $270.70

- **BUY**: Vertex Pharmaceuticals (VRTX) – CF is a genetic disorder with little to be done outside of drug treatment. Management has effectively cornered this market and could see a larger patient pool if ACA is expanded and/or Medicare for All becomes a reality. Even if Medicare results in a lower price tag, the larger patient volume will allow scale and margin erxpansion.

Current Share Price - $238.57 Projected Share Price - $368.69

- **BUY**: Waters Corp. (WAT) – The ongoing demand for vaccines and possible altercations to the vaccine is providing a tailwind of growth for the chromatographer. In addition, new CEO Dr. Udit Batra has a proven track record at MRK to grow this firm at a rate 2x its historical trend.

  Current Share Price - $270.42 Projected Share Price - $293.41

Portfolio Changes

- Neutral Non-$ Exposure - ~45% of the ACWI revenue is generated from countries outside the US. Titan Core Equity generates ~41% of revenue from overseas. In addition, the bulk of the ACWI's 45% generated from non-US countries is concentrated in technology. Thus, Titan's Core Equity not only has an overweight to technology, but has done so on the back of technology weighted more in the US.

- Decreased Mega Caps – Titan Core Equity still carries a negative factor of 0.60 factor to US Size, which is indicative of the strategy's mild overweight to small firms in the ACWI. This largely comes down to value between large cap and small cap. Small cap is currently trading at discount compared to large cap despite both segments trading above their historic ranges.

- Increased US Profitability – Given the amount of debt across the globe plus the unknowns that emerge from COVID, profitability provides that room for error. Titan's Core Equity leaned into firms that exhibited high profitability levels to insulate from whatever risk might emerge post COVID.

- Overweight US Hardware & Retail – Two of the largest holding in the portfolio are AMZN and AAPL. These two holdings are what is driving the portfolio to overweight these two sectors. This type of exposure speaks to the "new normal" that will emerge post COVID. Expect consumers to continue to shop online and through their smart devices. This will not only be a tailwind for hardware and retail, but also equip these firms with consumer data that can be monetized.

- Removed "Sin" stocks – The liquidation of MO and GD alleviates the risk of owning "sin" stocks during a Democratic run period. Given the administration's early message the focus will be on environmental and unemployment and not military defense. Given the cost of this message, the budget could be altered to provide less to aerospace as well as increase excise taxes.

- Reduced P/E Multiple – The ACWI currently trades at a historic high of 33.2x while Titan Core Equity currently rests at 24.3x, a 27% discount to the market. This lower multiple is a function of targeting more profitable firms as well as firms who have a realistic projection over the coming years. This is especially important as Titan has overweighed technology which tends to carry a higher multiple than the market.

Titan Core Fixed Income		
Sectors	Benchmark	Maturity
Treasury, MBS, Credit, Floating	US Bloomberg Int. 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

- Inline Duration – Interest rates continue their path of least resistance, which is lower. Overnight rates are back down to 0% and the 10YR Treasury sits at a near historic low of 1.00%. The actions taken by the FOMC has resulted in the yield curve steepening (difference between overnight and 30YR rates increase) and has provided an incentive to increase duration for the sake of yield. Thus, Titan's Core Fixed Income duration of 4.18 is largely in line with the benchmark duration of 4.14.

- Overweight US Bank Loans – The Fed's action to cut interest rates overnight is leaving little on the table in terms of yield. In addition, the actions to backstop US credit and municipals is providing a safety net across the entire fixed income spectrum. This safety net plus the floating rate component of bank loans provide a unique payout. Given interest rates are at the perceived lower bound of 0%, they cannot go lower, but could rise on a vaccine, strengthening economy, less unemployment, etc. If rates do rise bank loans will see their yields increase and the underlying loan itself will benefit.

- Inline Weight to Securitized Products – Falling interest rates and a dovish FOMC is setting the stage for a strong housing market despite unemployment remaining above 10%. This strength provides the catalyst to retain the exposure to high quality mortgage backed securities. These are not Alt-A or Subprime mortgages, but high quality mortgages that offer a mild increase in yield above the US Treasury curve.

Portfolio Changes

- Removed Long Bonds – Titan Core Fixed Income removed all exposure to US bonds maturing more than 10 years from now. The actions taken by the FOMC in conjunction with the fiscal stimulus has the chance to push inflation higher. If this chance takes hold, it will push longer dated interest rates higher and cause the most depreciation to longer dated bonds. This ultimately ties back to the interest rate risk (duration) bonds are currently exhibiting and seeking to minimize this risk.

Titan Opportunties		
No. of Holdings	Benchmark	ETF Exposure
8	ACWI	26.67%

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

- N/A

Specific Changes

- SELL: Avalara Inc. (AVLR) – Management has done an excellent job of bringing sophisticated tax software to SMB's around the world. There is no company specific issue with the firm, just the price. Shares have more than doubled in 2020 as the services offered by the firm have firmly priced into the security. This is simply a story where the thesis has been realized.

  Current Share Price - $161.52 Projected Share Price - $117.89

- SELL: Boeing Co. (BA) – Revenue is down over 20% despite the uptick in orders from the DoD and the 737MAX being cleared for flight. However, wide body planes are just not in demand and this is the widest margin product for the firm. In addition, airlines like management are managing cash flow and will be cautious in receiving new planes. This will ultimately weigh on future growth and keep hangar costs elevated.

  Current Share Price - $201.14 Projected Share Price - $144.55

Portfolio Changes

- N/A

References:

Bloomberg Anywhere

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