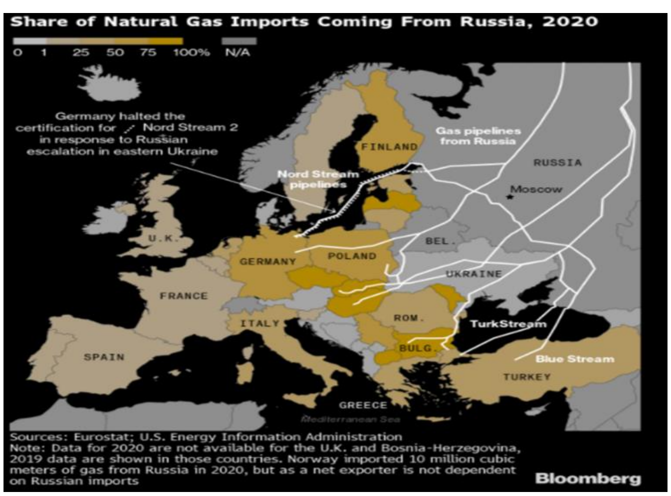
As We Stand Today:

Russia has officially invaded Ukraine from the north (Belarus), south (Crimea), and east (Russia). This invasion took place late into last night, but was preceded by one of, if not the largest Distributed Denial of Service (DDoS) attacks in history. It cannot be reiterated enough, the days of missiles and men are at an end, warfare is largely being fought in the cyber universe. This DDoS is the epitome of cyber warfare as Ukrainians were not able to access bank accounts or governmental resources. In addition, a wiper malware (called Hermetic Wiper) was found to be installed on computer mainframes across the country and has wiped out the data of any mainframe it had infected. The Hermetic Wiper is one of the first malware that destroys data. Historically, malware is used as ransomware whereby a criminal steals data and offers to return it only upon a ransom being met. The Hermetic Wiper is effectively the nuclear bomb of malware, it indiscriminately wipes out all data it touches.

These cyber attacks were then followed by a more traditional boots and tanks on the ground invasion (190,000 strong). Late last night, Vladmir Putin said, "Circumstances require us to take decisive and immediate action. The goal is to protect people who have been subjected to abuse, genocide by the Kyiv regime for eight years, and for this we will strive to demilitarize and rid Ukraine of these Nazis." Laughably Mr. Putin would go on to say this is not an occupation but Moscow's desire to demilitarize Ukraine and insert leaders who support Russia.

Where Do We Go From Here:

The North Atlantic Treaty Organization (NATO) has already imposed sanctions on Russia that largely target certain elites by freezing foreign assets and eliminating financial access to resources outside Russia. However, these sanctions are largely symbolic as Russian elites have shown the ability to work around financial hurdles. If NATO wants to hit Russia where it hurts, it comes down to oil and gas.



Europe is incredibly dependent on Russia for energy. As pointed out yesterday Russia supplies approximately 27% of the European Union's (EU's) crude oil, 41% of its natural gas, and 47% of its solid fuel (i.e., coal) imports. Thus, if NATO wants to be more aggressive with sanctions it will come at their own expenses in the form of higher energy costs. Whether NATO takes this action or not, the risk of a sanction on oil and gas has increased the probability of such an event thus the price of oil and gas has risen.

This potential in sanctions targeted towards oil and gas has led oil to trade north of $100/barrel. This is the first-time oil has hit $100 since 2013 and is already being felt by Europeans as well as Americans. This elevated price of oil will also eat into the abatement that was expected from inflation beginning in April. Because a higher oil price is a net negative to pocketbooks and will keep inflation elevated, Titan has taken the following steps:

- Sold (Lennar Corp) – The homebuilder has a strong backlog, but higher prices for oil, lumber, and labor will weigh on margins as well as ongoing supply challenges.
- Sold (AutoZone) – Management has done a fantastic job navigating supply chains and car parts for the past year. However, higher gas prices will incentivize Americans to drive less and thereby limit the amount of maintenance opportunities going forward. In addition, to drive the top line higher will require more suppliers, labor, and freight, all at elevated levels.
- Sold (SS&C Technologies) – This financial software platform has benefited from a robust M&A market. However, market volatility exacerbated by the war in Ukraine will limit M&A appetite in the near term.
- Sold (Clorox) – Resin (byproduct of oil) is a major material for company management. Margins already took a massive step back on oil when it was ~$85/barrel. Now that oil is near $100/barrel this headwind will only increase.

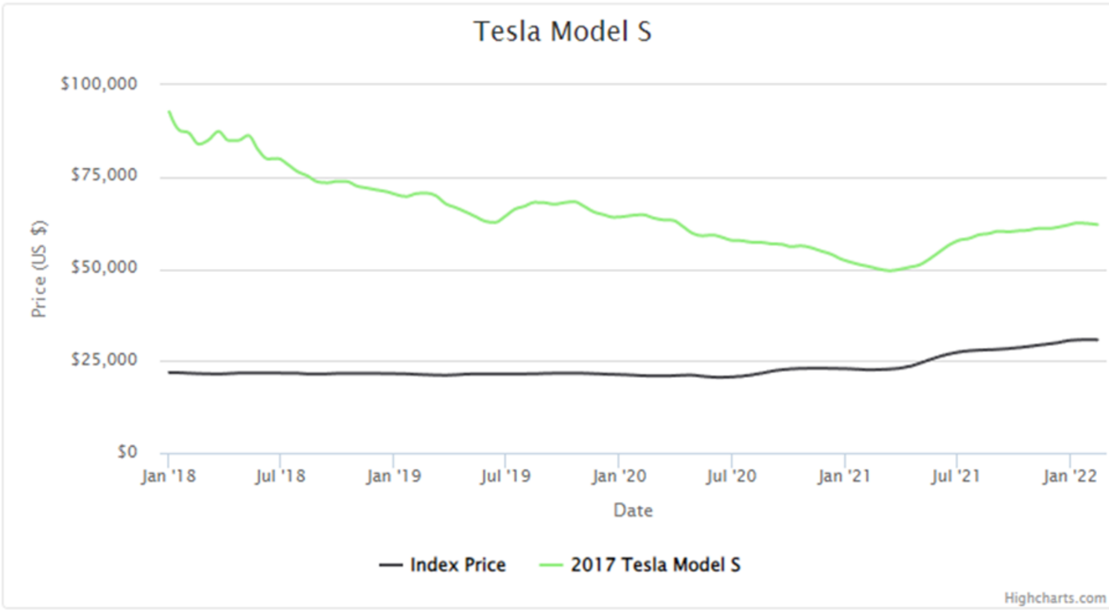
Another theme that can be identified among these companies is avoiding industries that require substantial labor and material to grow. The volatility in raw material costs as well as elevated cost of labor is another headwind that will weigh on these firms and respective industries at large.

Titan is now shifting its focus towards glass and electronic vehicles.

By glass, Titan more specifically means lens. Microsoft and Meta Platforms are competing to develop the metaverse (augmented and virtual reality). These two elephants are looking to capture a market that is projected to be $25B in hardware come 2025. $25B may sound like a big number, but Meta is currently worth ~$500B while Microsoft is ~$2.1T. In other words, there is no guarantee the metaverse is a needle moving event for either firm. However, the lens providers such as Corning (GLW) are only $33B. Thus, Titan believes the OEMs of the AR/VR hardware and not the platform developers are the ones who stand to benefit the most from AR/VR.

When it comes to electric vehicles, Tesla immediately comes to mind. The electric vehicle market has become more crowded with the likes of Rivian, but the tailwinds listed below are applicable to the universe at large.

- The difference between an electric vehicle and ICE (internal combustion engine) vehicle overtime is quickly dissipating.



As can be seen, the Model S in terms of cost versus its ICE alternative has decreased from over $70K to $30K. In addition, Tesla has released the Model 3, which comes with a price tag of $40K.

- As consumers face higher and higher gas prices at the pump, the lack of gas required for a battery becomes more and more appealing.
- The battery technology is moving at a much faster pace than its ICE alternative. Electric vehicles are largely found in the sedan market, but trucks are becoming more and more common. Lastly, the technology is quickly being adapted for semi-trucks, busses, and planes. This would open whole new market verticals for the industry at large.

In conjunction with glass and electric vehicles Titan is reviewing it's positions in cybersecurity. If the early events of Ukraine have proven anything its that cyber warfare is taking precedent above all other forms of combat.

Conclusion:

As was mentioned yesterday, the short-term effects of war are usually a negative for the market, but a year out has averaged a double digit return. The Nasdaq (technology driven) officially entered a bear market overnight (down 20% from its peak) and has wiped out the gain from 2021.

This comes despite Technology having the least amount of exposure to oil, metals, freight, and labor. In addition, the firms that have depreciated the most year to date carry less debt than firms that have appreciated. If inflation and a war in Ukraine driving inflation higher is your fear, the reaction from the market makes no sense. Consider the following:

S&P 500	Avg. YTD Return	Avg. Net Leverage (EBITDA/Debt - Cash)	Avg. Gross Margin
Bottom 50 (YTD Return)	-24.9%	2.1x	47.1%
Top 50 (YTD Return)	14.1%	2.9x	38.6%

Year to date, the underperformers have less debt and higher margins than the outperformers. If inflation is the fear, this makes no sense and is why Titan views this time as an opportunity. Profitability is paramount to pushing through any sort of economic duress, whether a virus or war. Therefore Titan will look to be more tactical going forward as we believe opportunities abound.

Please let us know if you have any questions.

Best,

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