



CONCENTRATED COMMENTARY

1Q 2019
AS OF MAR 31, 2019

In the first quarter, the Concentrated composite had a preliminary gross return of 8.93% (net of fees: 8.86%) compared to 14.00% for the Russell 1000 Index.

Although our relative performance struggled this quarter, which has also impacted our medium-term results, we are confident in the portfolio of companies that we own through our investment process. This quarter, companies with cheaper valuations, high economic returns and strong accruals (both measures of quality) underperformed overall. Conversely, the best performing stocks had high volatility and high beta factor characteristics. We remain uncomfortable putting your capital in companies solely with those qualities and would rather invest in companies that are higher quality (high economic returns, strong earnings quality, strong balance sheets, and low leverage ratios, among others) with more attractive valuations. On valuation, our belief is that even if you buy high quality companies, there is always the risk of overpaying for any asset and that valuation truly matters in the end. We continue to focus on cash flow when measuring valuation because this most accurately reflects the profitability the company is generating and can be used for management's capital allocation decisions, another important part of our investment decision process. Even though the quarter and now some longer periods have had less than desirable relative performance, we continue to adhere to our investment process and are focused on value, quality and market reaction. We believe a portfolio of companies with these characteristics provides the foundation for long-term performance, which we have shown since the inception of this strategy.

Below you will find the portfolio's best and worst performing stocks in the quarter.

<u>Best Securities</u>	<u>Average Weight</u>	<u>**Contribution to Portfolio Return</u>
Liberty Broadband	4.98%	+0.54%
Western Digital	3.53%	+0.49%
Cisco Systems	2.74%	+0.18%
Oracle	3.41%	+0.14%
Ingersoll-Rand	3.10%	+0.13%

<u>Worst Securities</u>	<u>Average Weight</u>	<u>**Contribution to Portfolio Return</u>
Berkshire Hathaway	7.15%	-0.87%
Biogen	1.30%	-0.86%
Amgen	4.10%	-0.57%
Liberty SiriusXM	5.66%	-0.53%
F5 Networks	2.73%	-0.45%

**Contribution calculation methodology is available upon request

The sectors that added to relative performance of the portfolio during the quarter were Consumer Staples [+0.12%], Utilities [+0.06%], and Materials [0.05%]. The sectors that detracted from relative performance during the quarter were Health Care [-1.92%], Industrials [-0.82%], Financials [-0.79%], Information Technology [-0.49%], Communication Services [-0.25%], Real Estate [-0.20%], Energy [-0.15%], and Consumer Discretionary [-0.09%]. Over the quarter, we had no positions in the Consumer Discretionary, Consumer Staples, Energy, Materials and Utilities sectors.

Liberty Broadband (LBRDK), in the Communication Services sector, was the strategy's strongest performing company for the quarter. For the quarterly results, the company grew revenues and customer relationships while completing its all-digital transition. We expect capital expenditures to decrease and, thereby, increase cash flow in the near future. Overall, we believe there is a discount by owning LBRDK versus Charter Communications (CHTR) directly, both management teams have been shareholder focused and successful at capital allocation.

Western Digital (WDC), in the Information Technology sector, was another top performing stock as well. Quarterly results were impacted by declines in flash selling prices with softening demand along with trade tensions with China. The company is taking action to better align its cost and expense structure. The company issued positive guidance during the quarter, which has helped the stock. Overall, WDC continues to trade at an attractive valuation, with high economic returns and a reasonable balance sheet.

Cisco Systems (CSCO), in the Information Technology sector, was another top performer for the quarter. The company delivered strong revenue growth year over year (y/y) driven by growth in applications, security and infrastructure platforms.



Cash flow decreased some but mainly as a result of a large tax payment in the prior year's quarter. CSCO has aggressively repurchased stock and has decreased its share count by around 9% over the past year. It has high economic returns, pays near a 2.5% dividend yield and has a very strong balance sheet with a net cash position.

Berkshire Hathaway (BRK.B), in the Financials sector, was the strategy's largest underperformer during the quarter. Over that time, the insurance segment grew pre-tax earnings y/y. Book value per share increased y/y and its investments continue to perform reasonably well. The company has a large amount of cash on its balance sheet to be reinvested in the future. Overall, Berkshire trades at an attractive valuation, owns strong businesses and is led by a strong capital allocator, Warren Buffett.

Another underperformer was Biogen (BIIB), in the Health Care sector. Quarterly results were impacted by the discontinuation of the aducanumab global Phase 3 Alzheimer's trials. The company stated that the decision was not based on safety concerns but that the trials weren't likely to achieve the goal upon completion. Subsequently, BIIB announced a \$5 billion repurchase program in addition to the \$1.7 billion remaining in the plan. Overall, the company looks attractively valued, has high economic returns, and has reduced its share count near 11% over the past three years.

Amgen (AMGN), in the Health Care sector, was another underperformer for the quarter. For the quarter, Amgen grew sales y/y with strong unit volume growth in its newer products. The company continues to invest in its products and pipeline. Overall, the company is reasonably attractive on valuation, has strong economic returns, pays a 3.1% dividend yield, and has reduced its share count by approximately 11% in the past year.

We thank you for your patience and support. We truly appreciate the opportunity to serve you.

Sector characteristics and security performance reflect information for a representative account from the Concentrated Equity composite over the time period. Results for accounts in the composite may vary over time, due to timing, cash flows, among others things. The information provided should not be considered a specific recommendation to purchase or sell any securities and is subject to change. Gross composite performance figures shown are based on time-weighted rates of return, and are net of transaction costs. The net composite performance figures shown reflect gross performance less investment management fees, net of transactions costs. Our advisory fees are disclosed in Form ADV, Part 2 A. All returns reflect the reinvestment of investment income (dividends and/or interest) and capital gains. At the time of publication, the highlighted holdings are "current" holdings of the composite. The holdings identified do not represent all securities purchased or sold for advisory clients during the relevant time periods. We make no representations that securities purchased, sold, or held in the composite or client accounts will be profitable or will equal the performance of the securities in this commentary. A complete list of holdings for the preceding 12-month period is available upon request. The securities mentioned are selected solely as the largest contributors and detractors to performance of the composite. Estimates and certain information contained in this commentary are based upon proprietary research and should not be considered as investment advice. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth value. Index performance information was furnished by an unaffiliated third party, is deemed reliable, and is believed to be accurate, but not guaranteed and the information is subject to correction. **Past performance does not guarantee future results.**