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Newsletter 2-22

Financials Sector:

Two of our holdings, Everest Reinsurance (RE) and Four Corner Property Trust (FCPT), released Q4 2018 earnings this week. Everest missed on EPS and revenue due to underestimated losses. Their CEO addressed these concerns on a conference call and said industry models have not adequately addressed wildfire risk, but will tighten policies to control exposure in 2019. FCPT reported funds from operations (a better metric for revenue for Real Estate Investment Trusts) in line with estimates but missed EPS expectations. They reported strong acquisitions in the past quarter and have aggressive plans for 2019.

The Fed has expressed growing concern about the state of the growing economy, specifically concerned with the global slowdown and how it affects the United States. The Fed has promised patience on rate hikes this year, and is signaling two (2) more for this year. We will continue to watch as rising interest rates could rise to levels that affect consumer borrowing and affect primary revenue lines for our financial service companies. Assured Guaranty (AGO) reports earnings next week and wraps up Q4 2018 earnings announcements for the financial sector.

Consumer Sector:

This week, the Consumer Sector was led by Hilton Worldwide (NYSE:HLT) which is currently up 8.19% since Monday. This is largely due to their most recent Q4 earnings report, in which the company announced they beat EPS estimates by \$0.10, saw an increase in revenue per available room of 2%, and improved operating margins to 15.8%.

The sector has been out-performing all benchmarks YTD and our biggest mover has been Hanes Brands, which is up 49.32% YTD. We believe they can reach the \$20 mark in the first half of this year as their Champion brand continues to bring in increased revenue internationally. Once this happens, we may look to exit this position along with Home Depot, which has shot up about 9% YTD.

Energy Sector:

On February 7th Marathon Petroleum Corporation (MPC) reported earnings in which they missed revenue targets by 1.37 billion, while beating Non-GAAP EPS by \$0.52, however, missing GAAP EPS by \$0.27. MPC also stated that their refinery utilization was at 94% during Q4, which resulted in total throughputs increasing by 55% from 2.0 bbl/day in the previous year's Q4 to 3.1 bbl/day this Q4. Finally, MPC management has recognized ~\$160 million from the Andeavor acquisition this quarter and expects ~\$600

million by the end of their fiscal year.

Since January, OPEC, along with Russia, have engaged in slowly curbing the global supply of oil due to what they called an “oversupplied market” by 1.2 million barrels a day for the first half of 2019. Saudi Arabia is taking the heavy load in reducing their supply by cutting a fourth of the 1.2 billion. OPEC stated Tuesday that global oil supply has decreased by 1.09 million barrels a day to an average of 99.32 million barrels a day. Shortcomings of their projected supply curb comes from various Russian projects still heavily producing output.

Industrial Sector:

This week Congress settled on the spending package to fund the government for the rest of the year and President Donald Trump is not enthused. This was no surprise as the new plan for the proposed border wall contains less money for fewer miles of new border barriers. The new plan provides \$1.375 billion for the wall compared to the full \$5.7 billion Trump had asked for. Despite Trump’s disappointment in the border deal, he may reluctantly accept the congressional border-security deal to avoid another government shutdown and attempt to tap into other funds for the wall. If more funding is secured for the wall, Nucor (NUE), our Materials holding should stand to benefit greatly from the steel required to build the massive wall.

Healthcare Sector:

UnitedHealth Group's OptumRx unit got out in front of the drug rebate changes. They reportedly sent out letters to drugmakers demanding changes to rebate terms seven quarters prior to make adjustments to its insurance plans that benefit from rebates.

Biogen (BIIB) had a visceral reaction to the news they could potentially lose a patent battle to competitor Mylan. This dispute is over a multiple sclerosis drug, Tecfidera. Given that Tecfidera is one of Biogen's highest-earning drugs, a potential loss will crush its stock price. If Mylan loses, Biogen will try to extend the drug's exclusivity for the next ten years.

Technology Sector:

With the release of Apex Legends a week and a half ago, EA has seen their stock price rise 10.54%, a reversal from the previous downward trend of nearly 50% over the past six months. Apex Legends is yet another addition to the battle royale genre of video games where players team up in squads or go out solo and fight in servers consisting of up to 60 players to the death. This platform has seen tremendous growth over the past two years with Fortnite being the premier game for this genre with over 200 million users as of November 2018. However, Apex had a very successful launch (especially for EA titles) and has garnered over 10 million users after its first weekend. Unfortunately, our holding Take-Two Interactive (TTWO \$92.14) has taken a hit due to its absence in the world of battle royale as investors believe that it is the future for video games for the short term.

In other news, Google just announced that it is building new data centers across the USA including Texas, Ohio, Nebraska, and Nevada with a brand-new office in Georgia to top things off. CEO Pichai believes that this \$13B investment in new data centers will not only help Google but bring new jobs to thousands of construction workers across the nation.