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SECOND QUARTER 2017

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## **Proceed With Caution**

Another good quarter of performance in the market keeps us wary of over valuation. As we feel overall economic growth remains tepid.

Our largest concerns are continuing rate increases and balance sheet unwinding by the Federal Reserve and political risk surrounding the pending debt ceiling negotiations.

## **Portfolio Analysis**

The Triboro All Cap Portfolio had a fair second quarter. We are encouraged by our strong performance in June which was led by some names that were new to the portfolio. The strategy was +2.35% (gross of fees) +1.97% (net of fees) vs. +3.02% for the Russell 3000 TR index.

## **Positive & Negative Contributors to Performance**

Technology and Health Care were again the strongest industry sectors in the S&P 500 this quarter. Portfolio performance was helped by our overweight position in Technology as well as by stock selection. In Health Care the portfolio was underweight but we were aided by the addition of 2 new names that performed well.

Applied Optoelectronics (AAOI) makes fiber-optic networking products. The stock had been on our buy list for over 2 months while we waited for the opportunity to purchase it at a fair value. Since purchase on April 7 the stock increased 33% through the end of the quarter.

Lantheus Holdings (LNTH) makes products used in medical diagnostic tests. The stock showed up on our radar in early May when it announced excellent quarterly results. On June 15 the company announced a secondary stock offering and was down 10% on the news. We entered the stock on June 16. Since then the stock has increased 18%

The worst performing stocks in Q2 were HD Supply Holdings Inc. (HDS -25.5%) and Hanmi Financial (HAFC - 12.5%). HDS missed earnings guidance and guided down expectations for next quarter. The company also announced the sale of a division with the proceeds to be used to reduce debt. As the damage was done at the time of the announcement, we will hold the stock until we have more clarity. We sold HAFC in late May as it again missed estimates in Q2 - an automatic sell signal in our process.

We ended the quarter well balanced in terms of sector weights versus the index. The one notable underweight in the portfolio is in the energy sector. As the price of oil continues to fall, even well run companies cannot improve their business. Our process continues to find good ideas in Technology where we will add new names if they help to diversify the portfolio.

## **Executive Summary**

- As noted we feel that the current overvaluation in the market calls for increased caution. In Q3 we plan to reduce positions where business fundamentals are deteriorating.

- We reduced turnover in the first half of 2017 as compared to 2016 and we expect this trend to continue through the rest of the year as we selectively replace weaker names with new names that meet our criteria.

- We continue to use the same investment process that Triboro has used successfully for 14+ years while always searching for ways to improve our execution.

We appreciate your business and our team is always available to assist with questions or to explore a deeper conversation.

Regards,

Philip Mendelsohn, CFA

Portfolio Manager

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