TRIBORO
Investment Management

All Cap Core
Portfolio Commentary

SECOND QUARTER 2018

Tariff and Trade Concerns

The second quarter of 2018 was inconsistent as no clear trends or themes were present.

Worries about an increasing cycle of retaliatory tariffs weighed on stocks that rely on international sales for a significant portion of their business. This was especially true for companies in Technology and Industrials that do business in China. To reduce volatility in the portfolio we are looking for new names that will diversify the portfolio exposure in those sectors.

Portfolio Analysis

The Triboro All Cap Portfolio had a good second quarter. April and May were both strong months, but June was weak as international trade concerns affected portfolio performance. The strategy was +3.68% (gross of fees) +3.30% (net of fees) vs. +3.43% for the S&P 500 Index.

Positive & Negative Contributors to Performance

Performance was negatively impacted by stocks that will be affected by increasing tariffs on sales of their products in other countries. On the positive side there were several names in the portfolio that recovered from previous price downturns. We felt that these stocks were too undervalued to sell and our patience was rewarded.

Interestingly our 2 best performing stocks in Q2 were the 2 worst performing stocks in Q1.

Applied Optoelectronics (AAOI) is a maker of fiber optic networking components. The stock increased 78% during the quarter as analysts saw signs of increasing orders of new products and improvements in inventory.

Zagg Inc (ZAGG) makes accessories for smartphones such as chargers and screen protectors. The stock increased 41% in the second quarter as earnings significantly beat estimates. Zagg's solid balance sheet and ability to generate free cash flow gave us the confidence to hold the stock through the Q1 downturn.

The worst performing stocks in Q2 were Extreme Networks (EXTR -28%) and Cumming Inc (CMI -17%). EXTR missed both sales and EPS estimates during the quarter. We will monitor the Q2 results for signs of improvement. CMI makes diesel engines for trucks and was adversely affected by possible tariffs on its products despite beating estimates during the quarter.

Value stocks continue to underperform versus core and growth. Our process continues to lead us away from value stocks. We are actively looking to reduce risk across the portfolio by reducing our exposure to stocks that have the most potential for being hurt by international trade concerns.

Our heaviest underweight is in Consumer Discretionary where we are currently considering adding a name or two that rely on domestic sales and therefore less affected by possible tariffs. We are comfortable with our overweight in the Consumer Staples sector.

Executive Summary

- Diversification will be key for the remainder of the year. We will continue to examine factors that affect the portfolio across industry sectors to reduce risk.

- We continue to search for any new tools and strategies that can improve how we execute the investment process.

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