Opportunistic Total Return Strategy Update on Recent Market Weakness **Written on October 21st**

Executive Summary:

Although I have maintained a bearish view of the S&P 500, the OTRS return in October has been similar S&P 500 weakness. The Year to Date Return of a little over 5% going into the month is now about even on the year. The OTRS has invested in many companies trading at price to earnings or free cash multiples that are in the single digits and have very manageable debt levels. However, fears over peak earnings appear to be causing selling in companies who I believe are in a peak earnings year, yet discounted cash flow valuations are still very compelling even if earnings do move backwards. In addition, there are a higher number of small cap companies that tend to be more volatile and exhibit more beta. Many companies have high sustainable dividend yields and others generate very strong free cash flow and are willing and able to buy back not just 2% or 3% of its shares outstanding but 10% or 15%. I feel that strong free cash flow companies, which the OTRS is loaded up on should be able to outperform if the market is to hit a multiyear weak period. It is hard for performance to separate from the market over a 3 week period, when selling seems very programmatic. As I review the list of OTRS holdings, I am seeing many that have the potential to be up quite a bit in two years even if economic growth is muted. I haven't felt that way in a while. Attached to this summary is a list of securities that would be bought and in what percentages for new clients to the OTRS. As you can see, the vast majority of holdings are trading at significantly lower current valuations than the S&P 500 price to earnings ratio of 18x.

Overview:

The Opportunistic Total Return returned 2.5%[1] in the 3rd quarter bringing the year to date return to 5.3%[2]. However, the entire year's gain has been wiped out as the strategy is down 5-6% through October 19th. Since the OTRS began on September 1st of 2016, there has been a strong run of returns. This is the first time the strategy is experiencing a sharp correction and so the focus of this update is to provide additional color on the current holdings and how the strategy is positioned rather than discuss what did or did not work in the 3rd quarter.

The US economy is most likely peaking in 2018 and stocks are generally overvalued. That is the opinion I have held for much of this year. Even after the selloff, there are growth and margin concerns that in addition to rising interest rates and China trade concerns make the S&P 500 a riskier investment than usual. The dividend yield is below 2%, toward the low end of historical payouts, and the payout ratio of almost 50% shows that free cash flow is weaker than earnings. The estimated 17x or 16x forward earnings estimate of the S&P 500 should be taken with a grain of salt. Stocks are not that cheap.

One example of an item that boosts S&P 500 earnings estimates is stock compensation. With technology the dominant sector in the S&P 500 now, adding back stock compensation to free cash flow and earnings can lead to misleading numbers for the entire index. Another example of a misleading item is persistent noncash charges. For example, a company may buy a company or make a capital investment in one year, thereby depressing free cash flow, and then write off part of that investment several years later as "noncash restructuring". Cash was spent in previous years and did depress free cash flow. A persistent pattern here will lead to average earnings over several years being inflated compared to the cash flow over those same years. We have seen a fair amount of this with S&P 500 companies. Lastly, the increases in leverage we have seen over the past few years makes a 17x forward earnings metric not as appealing as it used to be. Debt to EBITDA of investment grade companies is higher than it has historically been and the higher the leverage a company has the lower the price to earnings multiple it should trade at. That logic should apply to an entire index. Rising interest rates and debt service won't be large headwinds for the S&P 500 companies but they will chip away at available free cash flow for equity.

With some bearish concerns, many of you may wonder why your account is close to fully invested. There are lots of companies to invest in at all times. The OTRS does not have a large number of S&P 500 holdings and the holdings held are perceived to still be able to provide a good return even if the global economy cools. There are a larger than normal percentage of small cap stocks and they can be quite volatile, certainly over the course of a 3 week correction, but have some very appealing valuations. Also, many holdings are likely in a year of peak or close to peak earnings. This scares many investors and can lead to short-term volatility. Since I am a strong proponent of discounted cash flow investing, the OTRS has been stepping into many companies that are predicted to face stable or even declining earnings over the next few years.

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[1] Gross of fees, see disclosures for fee information
[2] Gross of fees, see disclosures for fee information

The OTRS has established a fairly large position in materials. It is widely known than that peak pricing is occurring in certain materials sectors and that has led to investor selling. However, this is short sighted. It seems investors would rather purchase a company trading at 20x earnings that will likely grow EPS 10% or so over the next couple years than purchase a company trading at 5x earnings whose earnings will likely decline to 10x12 earnings but has just as good a long-term growth profile. Once growth resumes there is a good chance the growth likely will be at a similar clip to the previous 20x earnings company who has perhaps now become a 15x16 earnings company. The 5x earnings company going backward is more valuable than the 20x earnings company going forward. Yet, many investors are just too scared of the added volatility that comes with investing in a "peak" earnings year.

Covestro AG, a talented German chemical company and one of the largest polyurethane manufacturers in the world, trades currently at less than 4x this year's EBITDA and its debt to EBITDA is an astonishing low 1/3rd. It trades at less than 6x 2018 earnings and free cash flow. Huntsman Corp., a reasonable US counterpart, trades close to 6x EBITDA and has more debt. Huntsman actually doesn't have too high a debt load but it is more than Covestro. Companies with low debt levels should have higher multiples because they have the added ability to use their balance sheet to grow earnings. Covestro is currently buying back a large amount of stock and has talked about using its pristine balance sheet for acquisitions. Those advantages are not available to many US companies because debt levels are stretched even for investment grade companies.

Covestro's EBITDA should at least decline to 3 billion from about 3.5 billion in 2019 and may go lower due to benefitting from high pricing in 2018 that is now coming down. Even at 2.5 billion of EBITDA, the company would still generate good free cash flow, have a low valuation and good prospects for future growth. The chemical markets Covestro is in are generally viewed as having higher long-term growth than most other chemical markets. Yet, fear about declining EBITDA has investors selling fast. This is allowing the company to buy back stock, which it is doing aggressively for a very good price. And Covestro will be paying a dividend of at least 4% next year, probably a lot higher than 4%. It has the balance sheet to do so.

United States Steel Corp. is held. It had calls written on it in the mid 30's when the position was established and those expired this past Friday and the strategy will just hold the position now. It is clear steel pricing in the United States is peaking in 2018 but US Steel will have more volume from a reopened plant and better margin sustainability from its revitalization efforts. Debt and pension liability concerns are a thing of the past with this company, and with plenty of tax loss carryforward's cash available for equity should be strong. At an EV/EBITDA (net debt less than 1x EBITDA) of about 3x, pricing needs to collapse for there not to be good value in this company. Moderate price declines certainly seem to be more than factored in.

A Canadian copper miner Hudbay Minerals Inc. is held. Copper has a pretty good outlook over the next few years unless demand in China collapses. Hudbay Minerals trades much cheaper than other copper players at an EV/EBITDA less than 3x (net debt less than 1x EBITDA) due to management concerns. An activist has just stepped in to try and force management into taking steps to close the valuation gap. This holding is sort of a special situation wrapped with a positive outlook on copper.

Verso Corporation and Domtar Corporation are held. Unlike other materials sectors, peak pricing is likely not in 2018 and pricing leverage should extend into 2019. However, there are secular challenges facing these two market leaders in their respective paper category. There are unique reasons for each

holding but both have very low leverage and trade at sub 5x 2019 EBITDA with free cash flow multiples well below 10.

Another materials sector the OTRS has exposure to is lumber. The OTRS had high double digit returns in some homebuilders in 2017 before exiting and without any exposure to homebuilding/renovation, I took a position in two Canadian lumber companies earlier this year after they had corrected about 15%. When doing so, I assumed a 20% correction from very lofty lumber prices. Western Spruce Pine Fir lumber has corrected over 40% from its early 2018 highs. Since new home construction only makes up 30% of commodity lumber demand, that is an astonishing drop. Lumber demand has actually grown in the United States in 2018. In this case, the stocks were overvalued and the OTRS has large unrealized losses at this point. This shows how volatile some materials sectors can be in the short term. One of the companies, Western Forest Products Inc., does as much export business to Asia as sales to the US and is largely focused on specialty products that are not as volatile as commodity lumber. Nevertheless, it has sold off just as hard as the commodity lumber producers. It has no debt and pays close to a 5% dividend. The other company, West Fraser Timber Co., is the largest North American lumber producer and has minimal debt. It has a big business in the US South and Alberta, leaving only 30% of its business in the more troubled British Columbia area. Again, here are two materials companies with no meaningful debt and plenty of balance sheet flexibility.

Materials stocks can be very volatile in the short term, and have been recently, but I am willing to invest in them if they have very low debt because those companies can make it through tough times without any dilution while others may suffer. In fact, many materials companies with minimal debt can use this market selloff to buy shares at a discount. With a 3 year time horizon, there are some very appealing looking stocks in the materials sector.

Being willing to invest in companies that have a bright future even though markets are peaking extends to other sectors as well. The OTRS has exposure to the auto sector and that has been a tough holding in 2018. General Motors Company is held at a high weighting and Lear Corp and Magna International Inc. are held at modest weightings while there is a small position in Cooper Tire and Rubber. Once one backs out the presumed valuation of Cruise Automotive, GM has a shockingly low valuation at less than 3x EBITDA. One could build a sum of parts valuation of GM with its Cruise division, its China JV's and GM Financial that gets you close to its current market cap without any regard for its core North American division. Auto sales are slowing globally and GM will likely be cutting earnings this week from its previous around $6 per share. 2019 may even go below $5 but GM will grow again. It is in far better position than Ford for the future of automotive and investor concerns that auto companies won't be able to make any money on the transition to electrified vehicles is in my opinion incorrect. Scale will bring manufacturing profits and there are going to be wonderful opportunities to make money on the newer technology present in automobiles. GM pays close to a 5% dividend.

Lear and Magna have been winning so much new business that they should still be able to grow slightly even if overall auto sale don't. Importantly, both have net debt to EBITDA at an extremely low 1x or less, trade at less than 10x (7x 2018 if don't have earnings cuts ahead but that is unlikely) earnings and are probably licking their chops with how much stock they are going to be able to buy back after the selloff in the stock prices. Despite media criticism of share repurchases as a poor use of capital, they actually can be a great use of capital and I am eager to see how many shares these companies retire in the next six months. Lear, in particular, has done a wonderful job buying back stock over the past six or

so years. These holdings, similar to other OTRS holdings, have very low leverage. Market downturns can almost be positive developments for low leverage companies because they can use their balance sheet to acquire companies or buy back shares.

Another company the OTRS holds that has a stock price suffering from "peak earnings" fear is Micron Technology Inc. The OTRS had calls on Micron in the 50's but Micron in the low 40's is pricing in a dramatic drop in DRAM prices. Even if DRAM prices did drop in late 2019 to levels close to that of 2015 and 2016, an assumption that the stock should go back to a price similar to where it was then is flat out wrong. The billions and billions that Micron has earned over the past couple years has not been squandered. It has been used to dramatically strengthen Micron as a company. This is a talented semiconductor company. When one considers who to invest in for artificial intelligence and machine learning, one should consider how much memory is needed to execute machine learning. I will invest some money any day in a 3x price to earnings company with a bright future and more cash than debt that has the possibility, in a bad scenario, of being close to a 10x earnings company in two years. Micron currently has a 10 billion share repurchase program outstanding that is 20-25% of its market cap. Its stock going temporarily lower is a good thing for its share price in 2 years.

The OTRS does have some semiconductor exposure beyond Micron and that has been a problem recently. One holding that is an M&A target Orbotech, Ltd. has been trading at a consistent 10% discount to its takeover price and was viewed as somewhat of a merger arbitrage play in an overvalued market. Had it not been a takeover candidate, the strategy would have for sure sold out of it earlier this year. Unfortunately, there is stock as part of the deal and the acquirer has dropped over 20% dragging it down. Intel Corporation is held and at 10x earnings, with it having to recently announce a capacity expansion to meet demand, it seems odd that investors believe AMD is going to take all its business next year. Architecture and solutions matter more than just chip performance and no one has the breadth of semiconductor solutions as Intel. Avnet Inc. is held because its business should be relatively immune to an inventory correction for the the overpriced analog and mixed signal names, if one develops. As semiconductor lead times come in, Avnet, a value added distributor, should have an easier time managing inventory leading to better margins. Avnet has some relevant self help measures that should increase margins as well. Qorvo Inc. is held. 5G should benefit this company but smartphone concerns are creating some selling pressure. It is really the only company held that is very heavily exposed to the smartphone market. Aquantia Corp., a networking company, is held and this is an interesting means to invest in autonomous cars and advanced networking. If one looks out several years, the potential for this company is enormous. Nevertheless, it has a very small market cap so it will be volatile in market selloffs. Other than Aquantia, the semiconductor allocation is positioned on the value side of semiconductor stocks. Some long term secular growth drivers in economies such as internet of things, artificial intelligence, autonomous driving, all point to good long term growth for semiconductors even if there are some near term headwinds.

The OTRS has an allocation to some deep value stocks that I consider to be some of the most compelling investments of the strategy. These are generally stocks that have sum of parts values that far exceed their current market cap. There are two that have high allocations. One is Gannett Co, Inc. The strong free cash flow over the years in a declining business has allowed Gannett to develop a pretty solid local marketing platform through Reachlocal and its various acquisitions. Reachlocal with the latest SweetIQ acquisition may be able to do 70 million of EBITDA in 2019. An 8 or 9x EBITDA valuation makes this a 500-700 million dollar division that is an under the radar asset. Gannett also own almost 9 million

square feet of real estate in the US and another half a million in the UK. Much of this space is office space which is more valuable than industrial/warehouse space. There likely is 1 billion or more of value in real estate holdings. There would be some cost relocating employees to alternative sites but in this day and age journalists don't need a prime downtown location to work, so value could be unlocked without too much disruption. Gannett has minimal debt but did have a large pension liability. Good stock market returns, contributions and rising interest rates have turned that high liability into a not so significant one. The USA Today has been doing a nice job attracting visitors to its sites/app. Its monthly viewership numbers continue to climb. This is an asset that is not monetized to its full potential and seems to have a good future. When you add up the value of Reachlocal, the real estate, USA Today and Newsquest, the entire market cap is covered and that does not include the true cash cow of the business, the local newspaper for many cities throughout our country. There is a close to 7% dividend that is not even half of company's free cash flow.

Another compelling deep value holding is LSC Communications. It is a commercial printer of magazines, catalogs, books and it has an office products division. LSC has also made some investments to own a competitive mailing logistics business that focuses on print but can also handle many other items including things like subscription boxes. There are clearly secular challenges to magazines and catalog demand, but as an offset there are some internet only retailers such as Wayfair that strongly believe catalog mailings can drive traffic to their site. In addition, the number of niche magazine titles continues to grow. The overall print trend is down but manageable. Paper book demand is actually growing. Trade book demand is having another good year on the backdrop of many successful political books. K-12 book demand (e-substitution is well entrenched in secondary education but is unlikely to take hold in K-12 education in the foreseeable future. Digital distraction is a real impediment to e-learning) is a little sluggish, but big important states are adopting new curriculum next year and forecasts are that K-12 book demand may grow upwards of 30% next year. It also helps that teachers have been striking throughout the country showing textbooks they are using that are absurdly old. New textbooks are good for LSC. LSC owns an office products business that is not a strong grower but is capable of generating good cash and likely will be sold to a more focused office products company at some point. That could be a source of cash that could be used to help consolidate some of the smaller printers still out there (LSC is only one of a few large scale commercial printers in the country). LSC also own over 17 million square feet of industrial/warehouse type real estate that is often located very close to major interstates and is often about an hour or so away from major cities. If one were to compare LSC communications real estate holdings to industrial REITs, the value of that portfolio, even after needing to repurpose locations for alternative business use, is quite substantial in relation to LSC's Economic Value. LSC trades at over a 12% dividend yield and that dividend is less than 30% of free cash flow. That is an extremely low valuation and while debt is a little elevated, it is not that high. Debt to EBITDA will be below 2.5 by year end. To trade at a Year End 2018 EV/EBITDA of about 4x, similar to Quad Graphics, its main competitor, the stock needs to rally almost 100%. For a stock to get this depressed in valuation, one needs to consider what he or she is missing, and I am pondering that with LSC but at the same time there are multiple avenues to protect on the downside. Real estate monetization, an office products division sale and a whole company sale to Quad Graphics, which many people think will eventually occur all provide some equity downside protection.

An additional deep value holding that is held only at a modest weight is Navios Maritime Partners LP. It is very depressed because it is in shipping and is part of a tangled web of Navios shipping companies

controlled by Angeliki Frangou, some of which are teetering on bankruptcy. Navios is in good financial shape but is being dragged down by association. Corporate governance is weak with this investment and there is a definite risk management may try to "raid" Navios Maritime Partners to save some of the faltering businesses. However, that would push behavior to such an egregious level that it is hard to see that taking place in any meaningful fashion. Dry bulk shipping has been strengthening for a couple years and this company which pays a distribution close to a 5% could pay one up to 25% due to its strong distributable cash flow. It currently is reserving cash and paying down debt. It is fair to question whether partnership investors will get some more cash flow anytime soon. I share some of those concerns but those are balanced by the fact that any steps to put corporate governance issues to rest or an increase in dividend could make this stock rise 50% overnight.

Financials make up about 10% of the strategy. The current financials held with a large weighting are Ally Financial Inc. and Jefferies Financial Group. Inc., those with a modest weighting are Deutsche Bank AG, Bank of America and Banco Santander de Mexico and there is a small position in Bank of New York Mellon. One thing you will notice is there are no regional banks. Loan growth is going to be challenged with many regionals. I firmly believe that companies like Ally Financial are going to create big headaches for traditional banks in upcoming years as the deposits continue to flock to places that actually pay a decent rate. Deposit betas are going to have to go up and that is bad news for many banks. Investors often forget that growing deposits is the best way for banks to grow. Ally Financial, although its deposits are not as profitable as traditional banks, continues to grow deposits at a strong clip leading to an ability to lower financing costs and grow NIM irrespective of Fed rates. It also trades at less than book value, has good management, and the used car market has been very resilient this year. It gets criticized often because it pays too much for its deposits. That is shortsighted and Ally will continue to aggressively buy back its stock while its valuation is depressed.

Jefferies is a special situation holding that trades at a big discount to Net Asset Value and is finally aggressively buying back stock and liquidating holdings. That type of behavior is a big departure from years past and this current selloff is perfect for the aggressive buybacks that are to take place. Deutsche Bank should provide above average returns for the patient investor who can wait a couple years. Irrespective of European interest rates, which Deutsche Bank has as much positive leverage to as any bank, its restructuring efforts will bear fruit in 2019 and 2020. Banco Santander de Mexico is held because of a belief that there is a long runway for banking growth in Mexico and this company has a good plan to earn its fair share of growth. Bank of America has been held since the OTRS began and was trimmed a while back. The Fed should continue raising rates and Bank of America has good leverage to raising rates and provides a reasonable value in this market. The OTRS will not be buying multiple large US banks. Bank of America is it.

Industrials are not widely held in the strategy. The strategy owns Mitsubishi Electric Corp. at a high weight to get some exposure to a resilient Japanese economy and a major player in industrial automation/robotics. It also has many other divisions including a large position in the HVAC markets. Mitsubishi Electric is suffering this year on risk of slowing orders in China and that is a valid concern. However, there is a solid margin improvement story in some of the underperforming divisions that can help offset that trend. Additionally, this company has an absolutely pristine balance sheet. It has more cash than debt, for an industrial company that is practically unheard of in the US. If one were to compare balance sheets of many companies in Japan to those of the US counterparts, the Japanese balance sheets are stronger by a mile, to the point of being inefficient. There is a trend that may be in

the preliminary stages and could take hold in Japan. Conglomerates taking more risk with the balance sheet and Mitsubishi Electric has a lot of potential to grow by that means. This has been a disappointing holding in 2018 but the company is well aligned with good long term growth trends, provides an allocation to Japan, and has plenty of ability to use its balance sheet to grow.

Cummins Inc. and Regal Beloit Corporation are also held. Cummins is also facing a "peaking earnings" concern but that is tempered by a rock solid balance sheet. Cummins is finally using it to buy back a lot of shares while still leaving plenty of borrowing power on the balance sheet. Regal Beloit provides good value and has some very nice secular growth opportunities ahead of it in the next few years.

Consumer discretionary, outside of autos, is generally high dividend paying stocks. Macy's has been held for a while. The strategy wrote calls on the holding when the stock approached $40 and that has helped on the downside. There are good things going on at Macy's and in the low 30's, investors get close to a 5% dividend yield. Dorel Industries (DII.B) is a Canadian small cap company that is a leading manufacturer of bicycles, baby gear such as car seats and strollers, and furniture. It pays close to a 7% dividend. It does have a fair amount of debt but that is balanced by the fact that the price to sales ratio of this company is extremely low and any margin improvement will provide lots of upside earnings leverage. Whirlpool Corporation is a holding. It has a fair amount of debt but it is a global leader in appliances trading less than 10x earnings with an over 4% dividend. Whirlpool does have some very real execution issues, particularly in Europe, but the stock seems to be continually sold on the poor outlook for new homes sales in the US. United States new homes sales are relevant but just not that big a part of its business. Margin improvement in Europe is far more meaningful. The Sears bankruptcy should provide a modest short-term benefit if Kenmore appliances (Whirlpool was subcontractor for only a small portion of Kenmore) start to disappear from the market.

The software holdings are IBM and Allscripts Healthcare Solutions, Inc. IBM is a large holding so its continual struggle to return to growth is disappointing. It is clear that in some niche areas like marketing software, companies like Adobe are currently kicking its butt. It is also clear that Microsoft and Amazon have far more momentum in the cloud business. Still, IBM should be able to carve out a meaningful share of cloud business, albeit quite a bit less than those companies. Also, some of the areas IBM is a leader in have huge growth potential but are just now at the outset of their growth stage and growth will be lumpy. These areas, like Artificial Intelligence applied real world sophisticated business use cases, are not like the cloud which is in a sweet spot for growth and is well established. IBM does have growth issues with almost half its business but the stock is half the value of competitors like Accenture. Those business that have negative growth rates still generate cash flow and therefore have positive value even though the market is treating them like they have negative value. They are a big reason IBM can pay triple the dividend of its competitors and has grown it 23 straight years.

Allscripts is a medical software company that has a broad exposure to most of the important trends in medical software. The growth in this industry has slowed down and stocks in this industry are no longer appreciating. Nevertheless, medical software providers are important, entrenched and will grow again. Allscripts is also somewhat of a special situation as it looks to reposition itself with some asset sales.

There are a few holdings in telecom, staples and REITs. Sabra Healthcare is still owned but is was trimmed recently. Telecom holdings are all small (.5%) but three are now held. Orange, a French telecom company, has been held for a while and Vodafone was recently added. China Mobile was also recently added. Even with quasi government control, China Mobile has a very inefficient balance sheet

with no debt and a dominant position in China's telecom market. My thoughts are that in 2019 the 4.5% dividend will be larger by means of a special dividend. Pilgrim's Pride Corporation and Bunge Limited are the two holdings in the food sector. Bunge should have an improving business at the end of 2018 into 2019 and has M&A/activist upside. Pilgrims Pride is a pure play chicken producer which I view as the meat with secular benefits attached to it. 2018 has seen a collapse in chicken prices so there are supply/demand issues that are proving to be a lot more significant than perceived. This is a tough holding that may be let go on any sharp move into the 20's.

As for international allocations, the OTRS does hold emerging market assets in addition to developed international market assets, and those have not performed well in 2018. Still, the valuation discount to US stocks is large enough that it is prudent to have an allocation to emerging markets assets for any diversified investor.

One thing I hope you can take away from these short comments on holdings is that many holdings can be quite volatile but leverage is usually quite low and the dividend sustainability of holdings should be high. The OTRS is not designed to pay a high dividend but some of those types of holdings are viewed as having the best 2 to 3 year return opportunities. Dividends can provide some comfort in a market downturn but if a 4% dividend becomes a 5% dividend in the short term through a stock selloff, that is a lot of downside and that 5% dividend is of little solace. The OTRS is going through that now and if those dividends are to help the strategy outperform the market, it will be over time. I am optimistic many of the OTRS holdings can provide really strong returns in upcoming years. I haven't felt that way for most of 2018.

I have attached a list of what a new investor would buy, and in what percentage, if that investor were to invest in the OTRS today. This list is constantly changing and most OTRS investors have differences to this. However, this is a good proxy of what to expect. As you can see, the majority of positions trade at much lower valuation multiples than the S&P 500 index, and the average distribution from the US focused holdings is a lot higher than one will get with the index. This is definitely a value strategy in its current form. This is the most informative update I have provided on the OTRS but this is also the first time the OTRS is experiencing downside in its short history. If anyone would like to ask more questions about holdings, please reach out.

Chris Harrington

OTRS Portfolio Manager

Company	Weight	Price to Earnings/Free Cash/ Distribuatable Cash Flow	Dividend/Distribution Yield	Industry	Comments
Ally Financial	3.00%	8x	2.3%	Banking	Deposit Growth, Valuation
General Motors	3.00%	6x	4.9%	Autos	Sum of Parts, Bright Future, Short term Headwinds
Gannett	3.00%	6x	6.7%	Media	Sum of Parts, Hidden Assets
IBM	3.00%	9x	4.9%	IT Services	More stable than perceived
Jefferies	3.00%	6x	2.3%	Brokerage/Other	Big NAV discount being closed
Covestro	2.50%	7x	4.3%	Chemicals	Peaking Earnings but DCF is strong
LSC Communications	2.50%	3x	12.7%	Printing Services	DCF Very strong
Deustche Bank	2.00%	25x	1.1%	Banking	Deep Value, Patience needed
Mitsubishi Electric	2.00%	11x	2.9%	Broad Electrical	Tough 2018, bright growth future, Japan exposure, self helf
Nokia	1.75%	15x	3.9%	Communications	Catalysts, margin improvement
Banco Santander de Mexico	1.50%	10x	4.1%	Banking	Good banking growth market
Verso Paper	1.50%	6x	0.0%	Paper	no to little debt, very strong cash flow upcoming
Hudbay Minerals	1.50%	7x	0.4%	Copper	Copper Exposure, Special Situation
Intel	1.30%	10x	2.7%	Semiconductors	More talented than perceived
Micron	1.30%	6x	0.0%	Semiconductors	Peaking Earnings but DCF is strong
Western Forest Products	1.25%	8x	4.8%	Lumber	Specialty Lumber, not as cyclical
Energy Transfer LP	1.30%	10x	10.5%	Midstream Oil and Gas	Merger soon, decent growth but high leverage
Bunge	1.25%	13x	3.0%	Agriculture	Business Improving, Special Situaiton
Aquantia	1.25%	breakeven	0.0%	Semiconductors	Small high growth
Whirlpool	1.20%	7x	4.30%	Appliances	Headwinds there but priced in
US Steel	1.20%	4x	0.70%	Steel	Peaking Earnings but DCF is strong
Regal Beloit	1.20%	11x	1.50%	Industrial	Nice secular growth and good value
Macys	1.20%	8x	4.70%	Retail	Believe strategy to compete is solid
Allscripts	1.20%	15x	0.00%	Medical Software	Decent Value with Catalysts
West Fraser	1.00%	9x	1.20%	Lumber	Largest NA lumber producer at lowest cost
Sabra Healthcare	1.00%	9x	8.30%	REIT	demographics will stabilize
Vishops Holdings	1.00%	9x	0%	Retail	buy write gone bad, will hold here
Pilgrims Pride	1.00%	11x	0%	Chicken	Markets weak, but still may be low double digit multiple at cyclical low
Orbotech	1.00%	14x	0%	Electronics	M&A play
Navios Maritime	1.00%	4x	4.90%	Shipping	Big Upside if Management allows
Mylan	1.00%	7x	0%	Pharma	Think downside limited in low 30's, upside to 40 likely
Magna	1.00%	7x	2.80%	Autos	Better growth than market
Lear	1.00%	7x	2%	Autos	Better growth than market
Embraer	1.00%	20x	0%	Aircraft	Special situation, buy write
Dorel Industries	1.00%	9x	7.20%	Retail Products	Margin upside potential
Cummins	1.00%	10x	3.30%	Engines	Good company at decent stock level
Canadian Solar	1.00%	11x	0%	Solar	Sum of Parts, Special Situation
Bank of America	1.00%	10x	2.10%	Banking	Good company at decent stock level
Avnet	1.00%	10x	2%	Semiconductors	Margin improvement, somewhat countercyclical to industry
American Airlines	1.00%	7x	1.30%	Airlines	underappreciated offsets to headwinds
Qorvo	0.80%	11x	0%	Semiconductors	5G potential growth
Biogen	0.80%	12x	0%	Biotech	Good risk vs. reward heading into next couple years alzheimer readouts
Domtar	0.80%	8x	3.90%	Paper	Rising Prices, good DCF
Vodafone	0.50%	16x	8.70%	Telecom	Bad Priced In, Defensive for Market
Orange	0.50%	13x	5%	Telecom	Good Relative Value, Defensive for Market
China Mobile	0.50%	10x	4.50%	Telecom	Defensive for Market, Special Dividend 2019?
Coherent	0.50%	13x	0%	Lasers	Tough 2019 priced in, good growth technology
Cooper Tire	0.50%	13x	1.70%	Tires	Lots of self help potential
Express Scripts	0.50%	11x	0%	Pharma	Special Situation
Impinj	0.50%	negative	0%	Semiconductors	RF tagging, IOT, huge growth potential
CVR Refining	0.50%	7x	13%	Refining	IMO, big distributions
Delek US Holdings	0.50%	8x	2.70%	Refining	IMO, good relative value
Syngergy Pharma	0.50%	negative	0%	Pharma	Special situation, buy write
Marinus Pharmaceuticals	0.30%	negative	0%	Pharma	risk vs. reward on read out
Athersys	0.30%	negative	0%	Pharma	risk vs. reward on read out
Vanguard Emerging Markets	4.00%	12x	2.80%	Emerging Markets	broad allocation
Vanguard FTSE Developed	2.00%	14x	3.30%	Developed International	broad allocation
DFA Emerging Markets Small	1.00%	hard to say	1.70%	Small Cap EM	sector exposure, crushed this year
DFA International Small	1.00%	hard to say	2%	Small Cap International	sector expsosure, down a lot this year
INDA	0.75%	17x	0.80%	India	good growth story
MINDX	0.50%	hard to say	0	India	good growth story
VNM	0.75%	25x	1.20%	Vietnam	good growth story
Bonds/Cash/Other	**22.10%**				

Supplement: **Written on October 30th**

Last week proved to be another volatile week and this report had not been sent out yet so I thought I would provide a quick update on four new additions. Oshkosh Corporation was bought. It was as high as $95 earlier this year and OTRS investors own it between $55 and $60 (several buys with different timing for different clients due to cash and equity weightings impacting trade positioning). Construction is a tough market to invest in now if the economy does start to cool. Those concerns are high in my mind and the OTRS will not be aggressively investing in companies tied to construction. The concerns are offset by a company whose main product line, aerial work platforms, has some nice tailwinds that could allow business to hold up better than other construction equipment manufacturers. Oshkosh also has a defense business as a contract manufacturer for vehicles and that business should be fairly stable over the next few years. It also makes fire trucks and various other trucks like concrete mixers. The stock trades at less than 10x 2018 earnings and has net debt to EBITDA less than 1x. This is another company that has a powerful combination of a cheap current valuation and a strong balance sheet that provides lots of flexibility to grow earnings through balance sheet utilization. In addition, no one really talks about it anymore, but our country has definite infrastructure needs that will have to be addressed through increased spending at some point.

STM Microelectronics N.V. was added in the low 14's for most OTRS investors. It had been over $26 as recently as late June. STM is a broad semiconductor company that manufacturers microcontrollers, analog and mixed signal chips, specialty compound semiconductors which is an area it really shines in, among other items. It has a lower gross margin due to producing most of its chips at its own fabs in Europe that are higher cost than Asian fabs. That is a persistent negative investors seem to focus on. Owning fab assets in a crowded competitive semiconductor market should not be viewed as such a negative. STM has some really nice growth areas over the next few years, is a really innovative company, has a margin improvement story (it is a lower margin company than peers but as its business is growing, it is starting to shift some business to outsourced fabs), and trades at 10x earnings with more cash than debt. It is going to grow revenue 16 to 17% this year. This is a good growth company at a very reasonable valuation. A one or two quarter inventory correction in semiconductors does not change the long term story here.

Flex Ltd., an electronics manufacturing company, was added. This company was bought for an average price of around $7. It was a stock over $19 earlier this year. Flex has execution issues in one of its 4 divisions, the consumer technologies group. That division has underperformed significantly this year. However, the other 3 divisions which manufacture a wide variety of items from medical devices to automobile parts to cloud data center items to electric charging meters are all doing just fine. The earnings of this company are a lot steadier than perceived by the market, one of the reasons it has an investment grade rating. At 7x earnings, the bad news is more than priced in. Additionally, it would be a beneficiary if supply chains start moving manufacturing out of China due to tariffs.

Brunswick Corporation was added. It was bought below $49 and at that level, the risk vs. reward is solid. Brunswick is a major player in boating. Its Mercury engines are the dominant engines in the industry. It also manufactures boats and has a fitness equipment division. Brunswick is a conservative company. It maintains a low debt level, trades at 10x earnings and is executing well. The marine markets still would have to experience quite a bit of growth to return to levels of the previous decade

and even if boating sales were to fall, parts & accessories are a big part of Brunswick's business. This holding gives the OTRS some exposure to outdoors/recreational markets which it did not have much of.

Micron was raised to a 2% allocation around $36 (some a little above, some a little below, two trades on different days). The OTRS is starting to get pretty high in a semiconductor weighting but some of these companies have very good long term growth stories and the stocks are getting crushed recently. Micron sold off on the Western Digital selloff. Western Digital is a different company than Micron. NAND is a far smaller portion of Micron's business and Micron is more competitive than peers in NAND anyway.

One really negative development that came to pass was financing concerns and possible bankruptcy that led to a sharp selloff in a very small holding Synergy Pharmaceutics. It was bought for most clients as part of a buy-write due to its implied volatility pricing in about a 25% annual return if the stock went nowhere. This company has a good approved drug for Chronic Constipation and Irritable Bowel Syndrome. Unfortunately, it did not get approval for the later indication until late January of this year and it is not to be added to preferred tiers of many formularies until 2019. Therefore, sales growth has been slow and this company aggressively spent on SG&A before having proper formulary coverage or even the second IBS indication. It was foolish and this company has burned through so much cash that management decided it would consider selling the company. I believed the company up for sale and an intact buy write now at a premium provided an okay risk vs. reward (balancing needing more cash vs. potential decent sale price with a good drug). The cost to close out the buy write which didn't expire until January 2019 was going to be a high percentage of the stock so the stock was held even with better options elsewhere. Even though the impact of the sharp selloff in this stock is not all that significant for returns due to the low weighting, I somewhat trapped clients into the holding by having too high a cost to close out the buy write. It was poor analysis and irks me a lot. That mistake will not be repeated. This company still will likely be sold but the financing concerns have created so much damage that the price will not be that significant.

DISCLOSURES

Past Performance does not guarantee future results.

Any investment contains risk, including the risk of total loss.

The new account minimum size is $250,000.

1 Gross Performance does not reflect the payment of Investment Advisory Fees, but does reflect the deduction of trading expenses.

Returns reported above represent a time weighted average composite of the separate accounts in the strategy, net of trading fees. New accounts are included in the strategy after 60% of available funds have been invested, or one month after start date whichever is sooner. Returns are geometrically linked over monthly periods or shorter periods if a new account or large cash inflow or outflow occurs within a month. Large cash inflow or outflow was earlier defined as over $50,000 but has been raised to over

$100,000.

All returns are reflected in US dollars, and because no adjustment is made for any foreign withholding taxes on foreign dividends, the FTSE All World ex US Net Tax is used as the applicable benchmark.

A standard deviation dispersion measurement is not presented at this time because the strategy does not yet have three years of return history. After which however, standard deviation dispersion calculations will be included.

Return calculations rely on data from TradePMR/Wells Clearing, the custodian, and Easy ROR Pro 15, a Hamilton Software product used for calculating the returns of a composite of separately managed accounts. Such outside sources are believed to be reliable, but no representation is being made regarding their accuracy.

2 Custom Benchmark consists of a 45% weighting to the Russell 3000, a 20% weighting to the FTSE All World ex US Net Tax, a 20% weighting to the Bloomberg US Corporate High Yield Unhedged Index, and a 15% weighting to the Chicago Board Options Exchange S&P 500 Buy-Write Index.

Index Definitions

Russell 3000: This index is composed of 3000 large US companies as determined by market capitalization.

The FTSE All World ex US Net Tax tracks approximately 2,220 large and mid-capitalization stocks in countries around the world, including both developed and emerging markets, but excluding the United States. Index returns are adjusted for withholding taxes. With 1866 constituents, the index covers 85% of the global equity opportunity outside the US.

Bloomberg Barclays US Corporate High Yield Total Return Index Unhedged: This index measures the USD-denominated, high yield, fixed rate corporate market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/ BB+ or below.

Chicago Board Options Exchange S&P 500 Buy-Write Index: This index is designed the track the performance of a hypothetical buy-write strategy on the S&P 500 Index.

3 Net of Fee Performance reflects the deduction of the maximum charged annual investment management fee of 0.50%. The net compounded effect of the deduction of fees over time will be affected by the amount of fee, the time period and investment performance. Investors that are also clients of Waterfront Wealth Advisors pay a lower investment management fee of 0.30%. Not deducted from the performance net of fees are WaterFront Wealth Advisor Fees (which may range from 0.50% to 1.50% depending upon account size) which will lead to reductions in return. Investors in the strategy that are not clients of Waterfront Wealth Advisors will not pay any wealth advisor fees but will pay a management fee.

Additional information on compliance methodology is available on request. A complete list of all prior purchases in the strategy for the last year is also available upon request.

Data, opinions, and other material provided herein are provided for informational purposes only and should not be considered indicative of future results. Expressions of opinion are as of this date and are subject to change. Nothing contained herein should be considered investment, financial, legal, tax or other advice, nor is it to be relied on in making investment or other decisions.

Actual client trading may vary from strategy. Consequently, actual client account performance may differ. Strategy returns are unaudited.