Portfolio Activity Q4 2018

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BUYS

Hilton Worldwide Holdings Inc. (HLT)

Hilton Worldwide owns a portfolio of hotel brands that includes Hilton, Waldorf Astoria, Double Tree, Embassy Suites, and Hampton. The company generates a majority of its revenue from franchising and hotel management. It owns very few of the physical hotels that use its brands, as the company recently spun off the ownership segment into a separate entity. It also spun off its timeshare business, leaving behind the asset-light business that Hilton Worldwide is today.

Hilton Worldwide generates most of its earnings from franchise fees. The company essentially gives franchisees the right to use its brands and receives a payment in return for that right. This requires very little capital investment and generates a recurring stream of royalty income. These franchisees are locked into long-term contracts, which makes the royalty stream reliable and visible. Ultimately, the franchisees absorb a majority of overcapacity risk in the event of a cyclical downturn which gives the company some financial protection. Hilton also manages some of these hotels, which makes the relationship with franchise operators even stickier. In our view, the capital-light nature of this business will position Hilton to succeed in the long-term. An earnings miss at the beginning of the quarter afforded us a brief opportunity to establish a position in the company.

Thor Industries, Inc. (THO)

Thor Industries is the leading manufacturer of recreational vehicles ("RVs") in North America. More specifically, it is the market leader in Towable and Motorized RVs. Its portfolio of brands includes Airstream, Heartland, Jayco and Keystone. In September, Thor agreed to acquire Erwin Hymer Group – Europe's largest RV manufacturer. Once finalized, this acquisition will make the company the largest RV manufacturer in the world and give it exposure to growing global markets and a diverse procurement, manufacturing, and distribution network.

We view Thor as a *best-in-breed* manufacturer in a growing industry, with a strong competitive position, selling at a discount to fair value. We believe the RV industry stands to benefit from a growing consumer preference for experiential spending, outdoor leisure, and active lifestyles. Thor is also investing to modernize the ownership experience by creating a digital ecosystem to connect campers and streamline the ownership experience. This combination has led to a shift in RV buyer demographics – largely to younger generations. Demand has also been strong due to a robust economic backdrop – namely low interest rates and favorable employment and wage trends. Share prices have declined recently due to concerns over inflationary pressures from tariffs on steel and aluminum and concerns over a potential economic slowdown. We believe that many of these headwinds are short-term in nature and do not pose a long-term threat to the

BUYS (Cont'd)

company's competitive position. Further, we believe the market has more than priced-in these concerns, pushing the valuation to near cycle lows and creating an attractive entry point for long-term investors.

Amazon.com, Inc. (AMZN)

Amazon is one of the world's highest-grossing online retailers (Amazon Marketplace) and cloud computing vendors (Amazon Web Services). The company has created a valuable ecosystem through cost advantages and an efficient distribution network. As an early player in the industry, Amazon was able to attract buyers and sellers to its marketplace, which attracted more sellers, which attracted more buyers, and so forth. This created a strong network effect. Amazon has always been obsessed with the customer experience, and its Prime membership program has allowed it to lock in over 100 million members to cross-sell products and services. This has reinforced the company's moat in the retail space. The company's Fulfillment by Amazon service has also strengthened its retail network by attracting more third-party buyers and sellers to the platform. We believe the distribution network that the company has created would be difficult to replicate. Amazon is also one of the largest providers of cloud computing services. This is a young industry with massive growth potential. During the quarter, Amazon's share price declined significantly on general market malaise. As a result, we were given the opportunity to purchase shares below our estimation of the company's intrinsic value.

Booking Holdings Inc. (BKNG)

Booking Holdings operates as an Online Travel Agency ("OTA"). The company's online platforms facilitate business transactions between travelers and hotels/airlines/rental car services. In most cases, Booking acts as a platform and receives a commission for lending its network to travelers and businesses. In other cases, Booking acts as the facilitator of payments, buying rooms in bulk and selling them individually at a profit. The company also generates advertising revenue on select platforms. Most of Booking's revenue is generated in Europe where boutique hotels are commonplace and there is very little consolidation in the hotel industry. This lack of consolidation makes smaller hotels dependent on Booking's services, giving the company a wide economic moat. A majority of the company's gross profit comes from commissions, giving Booking a toll booth-like business model and substantial cash flow. Management has consistently demonstrated the ability to reinvest this cash effectively with incredible foresight into growing markets. We continued to purchase shares throughout the quarter as the stock price fell on general economic malaise.

The Charles Schwab Corporation (SCHW)

The Charles Schwab Corporation provides financial services to individual investors, independent investment managers, retirement plans, and institutions. Charles Schwab offers numerous financial services, but its most profitable line of business is banking. It makes net interest revenue on the spread between what it pays depositors and what it receives in interest income. As cash balances increase and Schwab sweeps more excess cash into its bank subsidiaries, we believe that its profitability will continue to improve. The company also generates business from (1) money market funds, (2) mutual fund and ETF service fees, (3) brokerage and asset management services, and (4) trading revenues. By spreading out operating costs over all of these segments, the company is able to enjoy high returns and wide margins. We continued to see a mispricing in the market and an under-appreciation of the business during the quarter, which encouraged us to purchase more shares.

BUYS (Cont'd)

Facebook, Inc. (FB)

Facebook, Inc. owns multiple social networking platforms – most notably Facebook, Instagram, WhatsApp, and Facebook Messenger. Facebook generates revenue by selling advertising space on these platforms to businesses around the world. We continued to add to this position during Q4, as we believed that shares were materially undervalued and that nothing fundamentally had changed with the company's business model. In our opinion, Facebook's economic moat is very wide due to a lack of competition and a strong network-effect. The market appears to be concerned with decelerating growth, slimmer margins, and potential regulations/fines. Regarding the first two concerns, Facebook is (1) still growing very rapidly relative to other businesses in our equity universe, and (2) engaging in discretionary spending for future growth opportunities. This discretionary spending is a form of long-term investment, which we like, but the market continues to penalize it. Regarding concerns over regulations and fines, we believe that the share price reflects these risks. Furthermore, regulations could end up inadvertently strengthening the moat as barriers to entry rise for competition as well. We purchased shares throughout the quarter at what we believed to be a discount to our estimated intrinsic value.

Tencent Holdings Ltd. (TCEHY)

Tencent is an investment holding company. It invests in numerous businesses in a diverse range of industries. The company's largest revenue source is online gaming. Other sources include (but are not limited to) subscription revenue from music and video streaming, advertising revenue, and fees from payment services. We believe that the company's most valuable asset is WeChat – a smartphone application that offers a broad array of services to its users. The WeChat platform enables messaging, social networking, work groups, mobile payments, online shopping, payments at stores, a ride-hailing service, food ordering, sending money to friends, and buying event tickets. All of this is done on the WeChat app, creating a valuable and convenient ecosystem for the user. This app has over one billion monthly active users who each spend an average of over an hour per day using it. Our underlying thesis on the company is that Tencent has not fully monetized these user hours and has a clear path to do so in the future. We also believe that concerns over the trade war with China have disproportionately punished Tencent's share price. Therefore, we continued to purchase shares during the quarter for client accounts.

Alphabet, Inc. Cl. C (GOOG)

Alphabet (formerly known as "Google") continues to dominate and grow through its wide economic moat. Alphabet is highly profitable, has minimal debt, and holds a stockpile of cash on its balance sheet. These attributes, coupled with an under-appreciation of the company's network effect, an opportunity to significantly monetize YouTube, and an over-penalization of Google Ventures' negative profitability, continuously incentivize us to add to our long-term position when given the opportunity. We also believe that shares of Alphabet were punished during the quarter as a result of a broader punishment of larger "tech" stocks and an increased scrutiny pertaining to data protection. We were able to acquire more shares of this high quality company at prices which we believed compensated us for these risks.

Apple Inc. (AAPL)

Apple designs, manufactures, and sells consumer electronics, software, and online services. Its primary product is the iPhone, which we believe has pricing power and significant consumer mind share. Apple is an excellent cash generator and a staple in our clients' portfolios. We continue to be a net buyer of the stock and seek to add shares when the market and our calculation of intrinsic value are materially disjointed, which occurred during the quarter.

BUYS (Cont'd)

BERKSHIRE HATHAWAY INC.

Berkshire Hathaway Inc. Class B (BRK.B)

Berkshire Hathaway is a holding company that owns businesses in a diverse range of industries – from railroads and insurance to batteries and candy. It is run by legendary investor and businessman Warren Buffett. We purchased shares of Berkshire Hathaway throughout the quarter as the stock traded below our estimation of intrinsic value.

Microsoft

Microsoft Corporation (MSFT)

Microsoft sells productivity software, cloud services, operating system software, server products and tools, video game consoles, and advertising services. The company's Microsoft Office products have become a staple in the workplace and have created a reliable stream of recurring revenue. The Windows operating system has dominant market share. The company's foray into cloud services (Azure) and social networks (LinkedIn) are providing new avenues for growth and profitability. Despite these positive attributes, the share price declined at the end of the quarter to levels that we found attractive based on our estimation of intrinsic value. We acted on this event by purchasing the position for select clients.

TJX®

The TJX Companies, Inc. (TJX)

The TJX Companies, Inc. has consistently operated some of the most efficient and successful off-price retail stores in recent memory, leading it to generate outstanding returns on capital. The company applies a highly-efficient inventory management system, a skilled buying team, and flexible store space to establish itself as one of the leanest and most profitable retailers in the country. We added to our long-term position during the quarter as shares declined below our estimation of intrinsic value.

SELLS

(The positions below were eliminated in most accounts. In some cases, positions were kept in selected client accounts for tax purposes.)

Allergan™

Allergan plc (AGN)

We sold shares of Allergan in specific taxable accounts during the quarter. This sale was for tax efficiency purposes and was unrelated to the company's fundamentals.

Bristol-Myers Squibb

Bristol-Myers Squibb Company (BMY)

We sold shares of Bristol-Myers in all accounts except those which had short-term taxable gains.

SELLS (Cont'd)

Cummins Inc. (CMI)

We sold shares of Cummins in all non-taxable accounts and reallocated those funds to more attractive opportunities.

General Electric Company (GE)

We sold shares of GE in select taxable accounts for tax reasons and reallocated the funds to more attractive opportunities.

McKesson Corporation (MCK)

We sold shares of McKesson in specific taxable accounts in order to offset some taxable gains, as well as select non-taxable accounts in order to establish positions in the companies listed in the "Buys" section.