Portfolio Activity Q1 2018

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The following discussion mentions stocks that are widely — but not universally — held by clients of Horan Capital Management. Client portfolios are customized, so this commentary may or may not be directly applicable to any given client or account. Our intention is to provide general insight into portfolio holdings and into our overall approach and to highlight situations of interest, both positive and negative. The mention of any stock is neither advice nor a solicitation to buy or sell any particular investment and our opinions regarding securities are subject to change without notice. Investing involves risk of loss. See the legal disclosures at the end of this publication and on our website for more information.

NEW PURCHASES

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. Due to the asset-light nature of the business, Facebook's returns on invested capital keep expanding. Facebook continues to reinvest capital back into the business, which provides shareholders with tax-efficient internal compounding. The company's economic moat is incredibly wide due to a lack of competition and the company's network-effect. Facebook is what we call a platform business, in that it provides a platform to facilitate exchanges between multiple parties. In this case, it facilitates exchanges between social media users (everyday consumers) and advertisers. Facebook gets paid a premium for this facilitation and pays next to nothing for each incremental customer.

Reports surfaced during the quarter that Facebook data was illegitimately acquired by a third-party analytics firm, who in turn leveraged the data to influence American voters during the 2016 presidential election. We acknowledge that this is a serious concern, and we were aware of the privacy-related risks that Facebook faced when we initially purchased the position. The long-term ramifications of this event remain unclear; however, we remain convicted in the company's core business model. Facebook's platform is incredibly valuable for both advertisers and users. Unless users begin migrating rapidly to another social network, we see no catalyst that would prompt a material number of advertisers to leave the Facebook platform. Furthermore, Facebook's ownership of Instagram and WhatsApp create a comfortable buffer in the event that user migration does occur. Lastly, the company has a pristine balance sheet and more than $40 billion in net cash to combat any regulatory fines. We continued to add to our existing position as the market penalized the stock for what we believed to be a short-term hiccup.

BOOKING HOLDINGS

Booking Holdings Inc. (BKNG)

Booking Holdings (formerly known as Priceline) 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 will act 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.

NEW PURCHASES (Cont'd)

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. The company has a pristine balance sheet, with net cash and investments, including a large ownership stake in Ctrip – China's largest OTA. More than 75% 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 purchased shares in cash heavy accounts during the quarter.

ADDITIONS

(Unless otherwise noted, all positions listed in this section were added to selected accounts due to our belief that they had attractive valuations during the quarter.)

Apple Inc. (AAPL)

Apple designs, manufactures, and sells consumer electronics, software, and online services. Its primary product – the iPhone – accounted for almost 70% of revenue in Q1. We added to our existing position during the quarter, as we believed the market was failing to account for the company's post-tax reform financial standing. Apple is a strong 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.

Allergan plc (AGN)

Allergan develops, manufactures, and markets aesthetics, biosimilar, and over-the-counter pharmaceutical products worldwide. The company has fully reinvented itself over the past five years, changing from a pure generic drug company to a fully branded pharmaceutical company. Its products include Botox and Restasis, which dominate their respective industries. Pessimism in the market continued this quarter as concerns over Restasis' patent protection and Botox competition increased. And while those concerns were valid, we determined that their reflection in the market was overblown. Thus, we added to our long-term position during the quarter and will continue to do so when the opportunity presents itself.

CVS Health Corporation (CVS)

CVS is an integrated pharmacy health care provider, with products and services related to retail pharmacy, pharmacy benefit management services, and disease management solutions. In Q4 of 2017, CVS announced that it would acquire health insurer Aetna in a $69 billion deal. The market has penalized CVS for the purchase thus far; however, we believe that the prospective post-acquisition combination of these two firms will add substantial long-term shareholder value. Thus, we added to our existing position for clients. We believe that CVS management is investing with the long-term healthcare environment in mind – an environment which continues to rapidly shift as large corporations vertically integrate. This long-term thinking is exactly what we look for in managers. We would prefer the managers of our investments to be leading the industry shift rather than reacting to it.

ADDITIONS (Cont'd)

General Electric Company (GE)

GE is a multinational conglomerate whose business operations include aviation, healthcare, power generation, water processing, transportation, appliances, and consumer financing. With its new CEO John Flannery at the helm, we believe that GE will be able to reposition its capital and organizational structure to make the company leaner and more profitable. Furthermore, we believe that there is hidden shareholder value within some of the business' operating segments and that the market will recognize this value in the long term. This is a long-term business recovery opportunity, and we are pleased to own more shares of the stock at a discounted price.

Gilead Sciences, Inc. (GILD)

Gilead is a biopharmaceutical company that discovers, develops, and commercializes therapeutics for the treatment of life-threatening illnesses. Its drug portfolio notably includes treatments for HIV and Hepatitis C. Shares of Gilead were somewhat volatile during the quarter and reached attractive prices for purchasing more shares. As we have emphasized in the past, volatility does not deter us; it presents an opportunity in high-quality companies like Gilead. Thus, we took the market opportunity and purchased additional shares in 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 underappreciation 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 the Facebook scandal, which created negative sentiment in the technology sector as a whole. We reacted not with fear, but rather with optimism. We were able to acquire more shares of this high quality company at prices which we believed compensated us for any inherent risks.

Starbucks Corporation (SBUX)

Starbucks retails specialty coffee around the world. It primarily operates retail locations, but also sells whole bean coffees and bottled drinks outside of its retail locations as well. We purchased shares of Starbucks in selected cash-heavy accounts during the quarter. We believe that the pessimism regarding oversaturation in its market is overblown. We also believe that the company has ample international opportunity for sales growth and margin expansion.

ADDITIONS (Cont'd)

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. Furthermore, TJX benefitted tremendously from tax reform – something that we believe the market may have initially failed to recognize. We added to our long-term position during the quarter.

Wells Fargo & Company (WFC)

Wells Fargo is the third largest bank, by assets, in the United States. We purchased shares during the quarter as the company continued to recover from negative sentiment.

REDUCTIONS OF EXISTING POSITIONS

(We trimmed the following positions because they reached full valuation during the quarter. A fully valued stock does not always trigger a sale – especially for high quality "compounders." It can, however, create an overweight position in some client portfolios. This was the case for many of the companies listed below. We still like these companies for the long-term, but we also felt that there was a good opportunity to reposition some funds to the opportunities described in the "New Purchases" and "Additions" sections.)

American Express Company (AXP)

C.H. Robinson Worldwide, Inc. (CHRW)

Cisco Systems, Inc. (CSCO)

Emerson Electric Co. (EMR)

The Home Depot, Inc. (HD)

Polaris Industries Inc. (PII)

United Technologies Corporation (UTX)

Wal-Mart Stores, Inc. (WMT)

<u>ELIMINATION OF EXISTING POSITIONS</u>
(The positions below were eliminated in most accounts. In some cases, due to tax ramifications, positions were kept in selected client accounts.)

Bank of America Corporation (BAC)

Shares of Bank of America surpassed our estimate of full valuation for the quarter, and we sold our remaining shares to capitalize on this advantageous pricing.

BorgWarner, Inc. (BWA)

We sold all shares of BorgWarner during the quarter as the company's share price surpassed what we believed to be full valuation. Proceeds from the sale were re-allocated to other buying opportunities.

Colgate-Palmolive Company (CL)

We sold all shares of Colgate as the share price exceeded our estimate of intrinsic value. We felt that there were more attractive opportunities for funds and we allocated the proceeds from the sale accordingly.

Monsanto Company (MON)

We sold all shares of Monsanto in remaining accounts as upside probability (on the basis of its pending acquisition) became less than downside probability. We deployed cash from the sale into more attractive positions.

Oracle Corporation (ORCL)

We sold ORCL because it surpassed our estimation of intrinsic value by a notable amount. We felt it was an opportunistic time to transition funds from ORCL into other positions.

ELIMINATION OF EXISTING POSITIONS (Cont'd)

Tiffany & Co. (TIF)

We had been slowly cutting down our position for multiple quarters in what we believed to be the most tax-efficient way, and we finally sold the remainder of the position during the quarter.

U.S. Bancorp (USB)

We trimmed the position in Q4 2017, and this quarter we sold out of the position entirely. We took this as an opportunity to consolidate our bank holdings and reposition funds into other sectors.