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Mott Capital Management

January 17, 2017

The stock market delivered in 2017, and so did the Mott Thematic Growth Strategy. I could not have been happier with the results of the portfolio, putting up a strong showing, rising by nearly 19 percent net of fees and transaction cost, compared to the S&P 500 Total Return's gross gain of almost 22 percent.

2017 was led higher by the big consumer and technology names in the portfolio, Netflix, MasterCard, Visa, and Tesla, all surging by more than 45 percent. All four of these names are positioned to continue to do well in 2018, as their business models are beginning to come into their primes.

2018 Outlook

2018 is positioned to be an even better year than 2017, as the US economy and corporate profit start to feel the benefits of the new tax reform law. Due to the tax reform, some companies in the portfolio such as Disney and Starbucks, two firms with high effective tax rates, could see a significant boost to their bottom lines. The market has seemingly not priced in that benefit, with both stocks underperforming in 2017.

Earnings growth will be the key driver for the S&P 500 in 2018, and that growth is shaping up to be solid. According to Dow Jones S&P Indices, analyst estimates are calling for operating earnings in 2018 to rise by about 17 percent to $145.80, and nearly another 10 percent in 2019 to $160.03. The S&P 500 is almost as cheap as we start 2018, as it was to start 2017, trading at roughly 17 times 2019 operating earnings estimates.

Based on these estimates and expectations, I am reaffirming my third-quarter call, and expect the S&P 500 to rise to roughly 3,100 in 2018, an increase of nearly 16 percent.

Thematic Growth 2017 Performance Results

Non-Annualized Performance 1/1/17 – 12/31/17

MCM Thematic Growth Composite	S&P 500 Total Return Index
18.77%	21.83%

*Net of Fees and Transaction Cost

Instead of focusing on the performance for solely the fourth quarter, I shall just show you the winners and losers and then focus on the best and worst performers for 2017, and thoughts on 2018.

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MCM 3 Best & Worst Performers for 4Q'17

Altria +12.60%	Celgene -28.43%
Vodafone +12.09%	Acadia Pharmaceuticals -20.07%
Diageo +10.52%	General Electric -17.70%

MCM 3 Best & Worst Performers for FY'2017

Netflix +55.06%	General Electric -37.03%
MasterCard +46.60%	Celgene -9.84%
Visa +46.14%	Alkermes -1.53%

The Winners

Netflix had an incredible run in 2017, driven by strong subscriber growth, and a significant effort to strengthen its content library. Netflix should have another strong 2018 because many of the trends seen in 2017, will continue building. Netflix has a tremendous global reach, and international subscriber growth is still very much in the initial stages. Netflix is establishing itself a global media powerhouse and is the clear-cut leader in streaming media content.

Visa and **MasterCard** also moved up at a torrid pace in 2018, and the movement to a cashless society just continues to ramp-up, with no sign of slowing anytime soon. With more shopping taking place online, Visa and MasterCard are the principal beneficiaries of this cultural shift, merely acting as the "toll collectors." Gains may not be as substantial in 2018 for the two companies, but the growth story for both, is still intact, with both playing a vital role in e-commerce and are the leaders in the shift away from paper currency to a digital world.

The Losers

General Electric was a complete disaster, and I still kick myself for believing in the company's potential. All the potential just melted away the day the old CEO left. Upon his departure, the company became plagued with cash flow issues, resulting in the dividend being cut, for only the third time in its history, while earnings were slashed. The stock was removed from the portfolio right after the shareholder meeting.

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Celgene had a great 2017, until the final eight weeks of the year, when the biotech giant decided to terminate the development of a drug in development for ulcerative colitis. As a result, the company lowered its longer-term revenue target, resulting in shares falling. The company is a leader in the biotech space and the battle against cancer. It has started 2018 by making a $7 billion acquisition of privately held Impact Bioscience, helping to strengthen its drug pipeline.

2017 was a placeholder for **Alkermes**; it will be 2018 that is the transformational year for the company. Vivitrol, a drug for opioid dependence, continues to grow and gain market share, while the company is awaiting data from one of its lead medicines in development for schizophrenia and is in the process of completing an application to obtain FDA approval on its medication for depression. Alkermes also signed a licensing deal with Biogen, a large biotech company, in 2017 for its multiple sclerosis drugs. 2018 should be a transformational year for Alkermes and its stock price.

The Mott Capital Asset Management platform continues to grow, adding new clients and increasing assets. If you have friends or family, you would like to refer to me; I would appreciate the introduction and handle the relationship with as much care as I do for you.

The Research side of the business is now growing exponentially, as we continue to ramp-up our commentary and subscription models.

As always, I will continue to work my hardest to find new long-term thematic investments that are helping to reshape generational and demographic shifts, all in line with our investing discipline.

Regards,

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Year End	Total Assets Firm	Total Assets Composite	Number of Accounts	Composite Performance Net	S&P 500 Total Return	Annualized 3-Year Standard Deviation** Composite	Annualized 3-Year Standard Deviation** Benchmark	Internal Composite Dispersion
2017	2,118	1,716	20	18.77%	21.83%	12.70%	9.92%	0.90%
2016	1,717	1,377	17	-2.10%	11.96%	-	-	0.90%
2015	1,681	1,325	17	1.52%	1.38%	-	-	0.60%
2014†	1,026	628	8	3.82%	7.60%	-	-	N.A.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
† Performance reflects the non-annualized performance from 8/1/2014 to 12/31/2014.
** For periods with less than 36 months of composite performance, no 3-year ex-post standard deviation measurement is available.

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