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Mott Capital Management

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The Recession That Never Was – 1Q'19

For the broader market, the first quarter of 2019 was the best annual start in nearly twenty years. I am happy to report that Mott Capital also achieved the strongest first quarter in the nearly five years since inception of our investment strategy. During the quarter the Mott Thematic Growth Composite rose by 14.8% net of fees and transaction costs, beating the S&P 500 total return index gain of 13.65%, and the S&P 500's advance of 13.1%.

Returns for First Quarter 2019

Thematic Growth +14.8%	S&P 500 Total Return +13.7%	S&P 500 +13.1%

Overblown Fears

The concerns that were overhanging the end of the 2018 fourth quarter, including fears of a global economic slowdown and potential recession, melted away with the spring thaw. All it took was the Fed easing back on monetary policy to send stocks sharply higher. My last quarterly report suggested that the S&P 500 could rise to over 3,000. That comment may have seemed a bit crazy when I wrote it -- at the time S&P was 17% below that goal -- but as I write this note the S&P is less than 3% away from that reality. We have come a long way in a very brief time.

The market signals continue to suggest that the global economy is not heading towards a recession. Data revealed on April 26 showed that first quarter US GDP increased by 3.2%, better than estimates of 2.5% and faster than last year's first quarter growth of 2.2%. One wonders where the recession fears even came from. Surprisingly, even growth in China was strong, with its first quarter GDP rising by 6.4%, just ahead of consensus estimates of 6.3%.

Based on the dire predictions of many analysts at the start of the quarter, an inevitable recession was brewing and would take hold in the first part of this year. Maybe in Fantasyland, but certainly not in the US economy. Those same analysts predicted that the first quarter of 2019 would show the slowest growth and define a potential trough in the current cycle. The strong GDP growth during the quarter gives a very different message: most growth estimates for the balance of 2019 may well be too low.

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Performance

Top 3 Best and Worst Performers for 1Q'19

Acadia Pharmaceuticals +66.05%	Tesla (TSLA) -15.9%
Netflix (NFLX) +33.21%	Splunk (SPLK) -1.90%
Mastercard (MA) +24.81%	Disney (DIS) +1.26%

During the quarter only two stocks finished lower, while the others all finished higher.

ACAD

Shares of Acadia Pharmaceuticals led the rebound, rising 66%. The company reported solid fourth quarter and full year revenue for 2018 and provided favorable revenue guidance for the remainder of 2019, as Nuplazid sales for Parkinson Disease Psychosis remain strong. Additionally, the company will have several big data read-outs this year that could provide further expansion of the drug's indications and increase revenue.

NFLX

Netflix surged by over 33% as it continues to deliver strong subscriber growth expanding into international markets. The total subscriber base is now approaching 150 million. Recently Disney, another one of our holdings, revealed a direct to the consumer streaming app. However, I do not believe that Disney entrance will hurt or slow down Netflix growth. While Disney's media service will be limited to Disney content (including the recently acquired 20th Century Fox assets), Netflix will continue to offer the widest range of content for all audiences.

MA

Mastercard jumped by almost 25% in the quarter as the company continues to deliver strong revenue and earnings growth. As I have pointed out in the past, the move to a "cashless" economy implies an ever-increasing number of transactions for debit and credit intermediaries. MasterCard's growth is unlikely to slow any time soon.

TSLA

Tesla dropped by over 15% in the quarter as the company continues to push the delivery of Model 3 to China and Europe, creating logistic issues. This extension of market focus resulted in the company producing a total of 77,100 vehicles, but only delivering 63,000. I continue to believe that Tesla, with

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leading edge energy storage technology and benefitting from a maturing assembly and logistics platform, is changing the automotive landscape.

New Positions

During the first quarter of 2019 I added **Splunk** (SPLK) to the portfolio. The company is in the business of data analytics and security for cloud computing services (including Amazon Web Services), an area of business that is rapidly growing and likely will have many years of future growth. Since it was added to the portfolio, the stock was the second worst loser, falling 1.9%, but the decline had more to do with the entry point in the middle of the quarter, and not because of anything wrong with the business fundamentals. I am very excited to have Splunk to our holdings; I carefully tracked the stock during the last three quarters of 2018, and I am confident that it will be a source of growth for the portfolio for the foreseeable future.

We also added **Cisco Systems** (CSCO), an old-time technology stock that has a very bright future. The company makes much of the equipment that is needed for the rollout of the fifth generation of wireless technology –5G. Additionally, one of its chief rivals in the space is the China-based Huawei; the US concern with the possible security vulnerabilities of Huawei products and the limitations being put on the use of Huawei's equipment and technology could provide a huge tailwind to Cisco.

Also, as I noted in the fourth quarter letter, I added shares of **Microsoft** (MSFT) to the portfolio. The stock's performance this quarter has thus far exceeded my expectations. I am very excited about its positioning in cloud computing as the main rival to Amazon's Web Service.

The Reshuffle

At this point the portfolio reshuffle is complete, and unless there is unexpected information that changes my opinion on a current portfolio holding, I do not expect to make any additional changes in 2019. I realize the number of changes such as I made in the first quarter of 2019 does not occur often, but the market downdraft at the end of last year created too many opportunities. As a result of changes in stock prices and account balances, the portfolio size has now been reduced to 17 stocks.

Business Updates

I appreciate the extension of the trust you afforded me during the rough fourth quarter of 2018. As noted in my last quarterly report, sharp drawdowns like we experienced at the end of 2018 don't happen often. I believe you can see from this quarterly report that my expectations are for continued improvement in the markets during the balance of 2019.

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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.

-Mike

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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
2018	1,969	1,605	20	-8.08%	-4.39%	12.38%	10.80%	0.99%
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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performance. Performance shown represents total returns that include income, realized and unrealized gains and losses. Net of fee performance was calculated using actual fees. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The annual composite dispersion presented is an asset-weighted standard deviation calculated using accounts in the composite the entire year. The 3-Year Standard Deviation represents the annualized standard deviation of actual composite and benchmark returns, using the rolling 36-months ended each year-end. The 3-Year ex-post Standard Deviation of composite and benchmark returns is not presented because the composite strategy has less than three years of history.