September 21, 2017

Model Portfolio Update

Below is an updated snapshot of the *Bespoke Model Stock Portfolio*. On pages two through four, we provide updated commentary for each of the individual stock positions in the portfolio. This is the best way to understand our reasoning for holding each name. One-year price charts for each stock are included as well. Year to date, the *Bespoke Model Portfolio* is up 16% compared to a gain of 11.8% for the S&P 500. Since inception in May 2007, the portfolio is up 125.1% versus the S&P 500's gain of 64.9%.

Bespoke Model Portfolio: 9/21/17

Stock	Company	Current Price	Portfolio Weight (%)	Entry Price	Stop Price	Date Added	% Change
Consumer Discret.			**11.4**				
TSLA	Tesla	365.91	4.7	384.69	338.00	9/18/17	-4.9
VLKAY	Volkswagen ADR	34.14	4.9	32.34	28.40	5/5/17	5.6
WYNN	Wynn Resorts	145.30	6.6	67.03	119.00	1/4/16	116.8
Consumer Staples			**0.0**				
Energy			**0.0**				
Financials			**10.4**				
BLK	Blackrock	433.89	5.0	380.89	364.75	1/24/17	13.9
BRK/B	Berkshire Hathaway	183.65	5.4	135.70	159.25	3/1/16	35.3
Health Care			**10.5**				
IBB	Biotech ETF	331.51	5.2	306.67	276.00	6/20/17	8.1
ZTS	Zoetis	64.30	5.3	54.24	54.30	3/28/17	18.5
Industrials			**13.7**				
AAWW	Atlas Air Worldwide	67.40	5.0	66.72	54.90	9/12/17	1.0
ESLT	Elbit Systems	142.84	5.9	106.14	117.00	1/24/17	34.6
HTZ	Hertz Global	23.16	2.8	20.85	15.05	9/18/17	11.1
Materials			**5.4**				
SQM	SQM de Chile	58.74	5.4	28.43	35.50	12/30/16	106.6
Technology			**19.8**				
ADBE	Adobe	149.57	6.4	95.69	138.00	4/18/16	56.3
CHKP	Check Point Software	111.16	5.1	107.04	91.50	8/9/17	3.8
TWTR	Twitter	17.57	3.9	18.70	15.25	9/8/16	-6.0
QCOM	QUALCOMM	52.07	4.3	53.24	48.75	2/1/17	-2.2
Telecom Services			**0.0**				
Utilities			**0.0**				
ETFs			**0.0**				
Cash			**24.1**				

Performance (%):

	Since Inception[1]	YTD
S&P 500	64.9	11.8
Model Portfolio	125.1	16.0
vs. S&P 500	60.2	4.2

= Recently Added

= Changed Stop Price/ Lowered Weighting

[1] *Bespoke's Model Portfolio began with an initial value of $100,000 on 5/29/07.*

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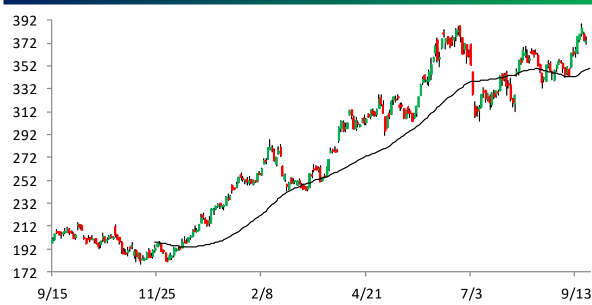
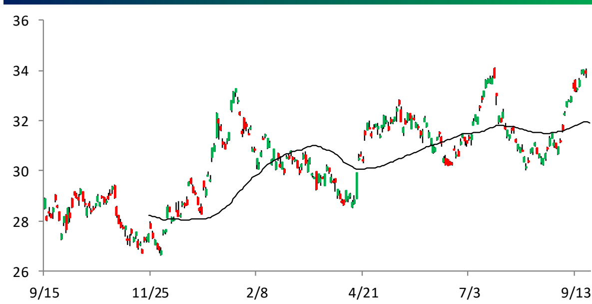
TSLA



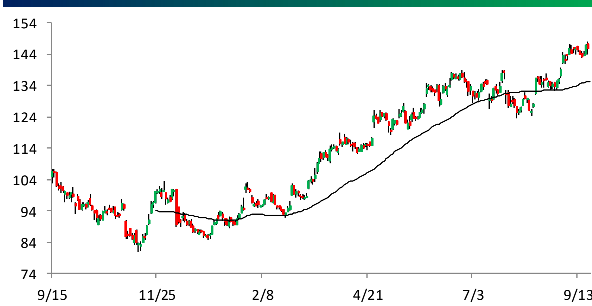
We've always viewed Tesla as a long-term Technology play, not a traditional auto play. When viewed as a Tech company run by one of the world's smartest visionaries in Elon Musk, TSLA's $60 billion market cap is much more digestible. Looking out 5 to 10 years, we think TSLA can double or triple its market cap as its Model S and Model X sales grow and its new lower-priced Model 3 edition begins to hit roads across America en masse. Tesla and Musk are at the forefront of tech, clean energy, AI, self-driving technology, and more. It's certainly not a stock to own if you're looking at valuations, but it's got "game changer" potential that we don't want to miss.

VLKAY



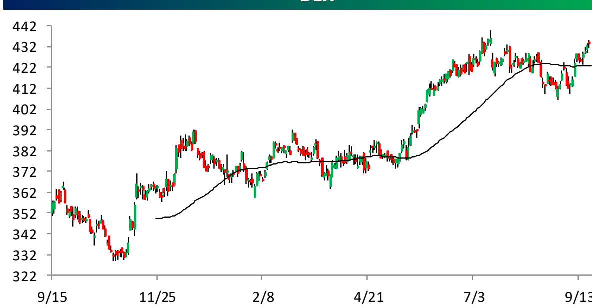
As we discussed in our recent *Chart of the Day* (link), European auto sales have broadly outperformed US sales and look likely to continue doing so. Volkswagen is an attractive way to play that trend, and VLKAY's steady trend off 2015 lows remains positive. The stock remains 33% below its 2015 highs before the advent of its emissions cheating scandal. That works out to 50% upside from here if the company can regain its former highs. Of course, that may be an unrealistic target, but we do think it's a reasonable dynamic to consider; Q1 EPS was 15.8% above Q1 2015 EPS and Q2 was 17.1% over Q2 2015 levels (just prior to the cheating scandal).

WYNN



Wynn Resorts has now tripled from its 2015 lows thanks to a recovery in Macau activity. The name doesn't report for another month but we note that stock price has caught up to analyst estimates; either the name is due for a significant round of upgrades or analysts will start getting bearish. Given the performance of the stock YTD (+70% total return) it seems unlikely that analysts will try and fade the stock's performance. Wynn continues to command a premium valuation for its Macau-focused casino business but 90% YoY EBITDA growth and well-above peers revenue growth both justify the slight premium in valuation.

BLK



Blackrock pulled back a bit late in the summer but is now moving back towards new all-time highs. The stock is up more than 172% over the past 5 years, though its total return since the end of 2013 is only about in-line with the gains for the S&P 500 Financials sector as a whole over the same period. The company reports on October 12th, and per our *Interactive Earnings Database* (link), BLK has beat EPS estimates 77% of the time since 2006. On beats, the stock tends to rally about 1.2%, with a 1.8% decline for misses. The company repurchases about $350mm of stock per quarter, only about 6% of cash and equivalents. There is room to raise that rate, although dividend growth is also a priority.

BRK/B

Berkshire trades at all-time highs and while price to tangible book value per share values the company aggressively at 2.42x, there have been numerous instances over the last couple of years when the firm has commanded a similar or higher premium. It's interesting to note that the relative performance of Berkshire to the S&P 500's total return has been basically stable for 15 years, since 2002. While there have been periods of stronger or weaker performance the broad trend is basically similar. Owning BRK/B for its ability to track broad equity prices won't get you any creativity points but it's worth keeping in mind that you won't pay any fees for the privilege of owning it, unlike ETFs like SPY.

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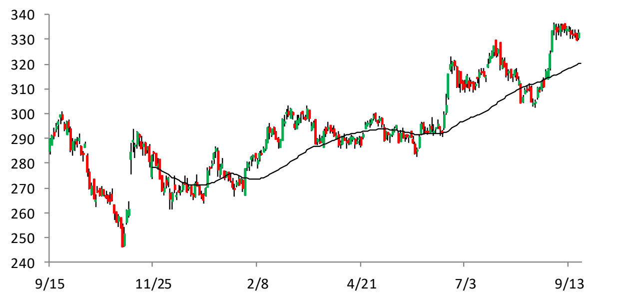
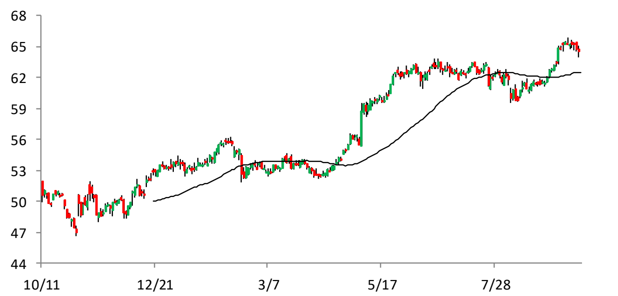
IBB



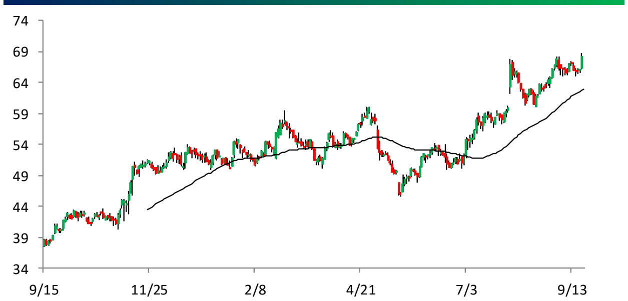
While the Nasdaq Biotech ETF looks to have made a short-term top and to be retreating back towards its 50-DMA, the broader trend is very much positive. New highs and new lows have been extremely consistent since Q1 2016 and we expect them to continue. We continue to like IBB's speculative nature (broadly playing new drug exposure rather than delivery of health care), relative insulation from health care reform (which is refusing to die as the Graham-Cassidy spending cuts bill is still in play, hypothetically, until September 30th), and possible regulatory favorability under the Trump Administration. We'd advise against adding at these levels but looking for entry around the 50-DMA makes a lot of sense.

ZTS



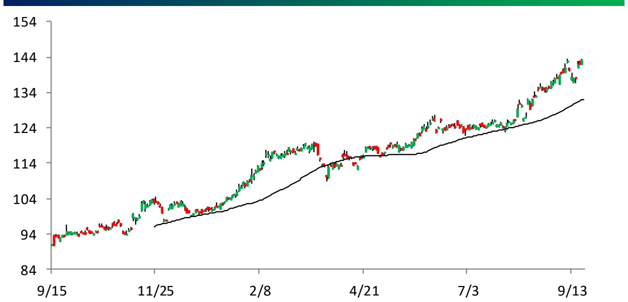
Zoetis' valuation is starting to get a bit rich at 25x 12m forward estimated EPS. That said, the company has a mature and stable business with high margins which deserves a premium valuation. Operating income margin is north of 30%, EBITDA growth is almost 10%, and capex is relatively low at 4.4%. 17.5% return on invested capital is pretty good but more impressive is the *75%* return on incremental invested capital. That kind of operating leverage is very rare and desirable. We also note credit investors love the name; $750mm 10y notes issued two weeks ago had an initial price target of 115 bps over swaps but strong demand led to guidance of 105 bps versus 100 bps final pricing.

AAWW



Atlas Air Worldwide trades at new 52-week highs as of this writing, as we expected it would following its breakout above $60 resistance back in August (for more, see our *Chart of the Day* from August 24th, link). That note also gives an excellent run-down of the core thesis behind the AAWW business and why we like the name. This week's data on exports from South Korea suggests that Southeast Asia continues to see very strong transportation demand, and while the mostly seaborne goods shipped abroad from that company are not directly responsible for stronger AAWW activity, the basic trend of increasing cargo volumes and broad capacity constraints on the global air transportation system are what we'd expect to benefit AAWW.

ESLT



While the ongoing collapse of Teva Pharmaceuticals (TEVA, -77% from highs at recent lows in early September) has dominated the news around Israeli companies, Elbit Systems is now up to 3.3% weighting in EIS (the MSCI Israel ETF). The defense company's defense electronics offerings (which include input on F-15s, F-16s, F-18s, and Bradley fighting vehicles) create high and stable margins as well as relatively high returns on equity, invested capital, and assets compared to peers. The company is also almost totally unlevered and valuations are much more modest than peers, making it an attractive name to continue holding. Revenue is found about 30% in Israel with the balance evenly split between the US and Europe.

HTZ

Any time a well-known brand with huge distribution and relatively attractive industry economics drops by 93%, we get interested. Hertz is facing slower customer volumes, a huge debt load, and brutal fleet economics. These and a myriad of accounting and management issues have destroyed the stock over the last few years. However, T12 EBITDA is less than 5x enterprise value, a compelling level for an investor that sees viability for the aggregate US car rental industry, no collapse in used car prices (Hurricane Harvey is helpful in this respect) and continued smooth sailing for credit markets and the economy. As with any distressed company, November 6th earnings will be interesting, especially after the first revenue beat since Q3 '14 last time.

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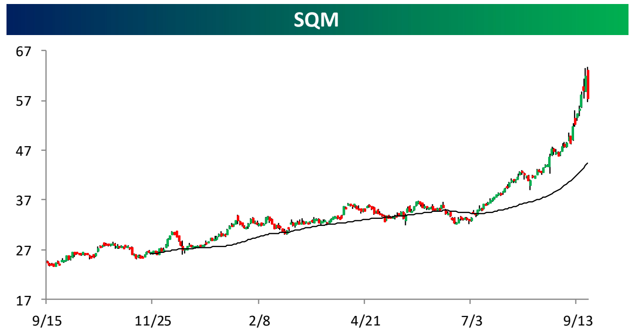
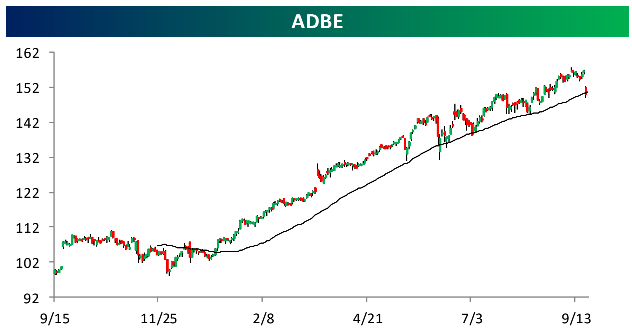
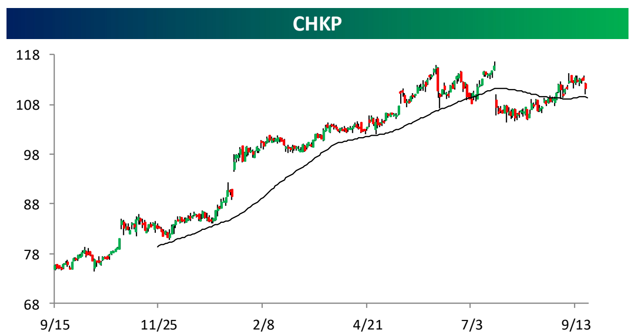


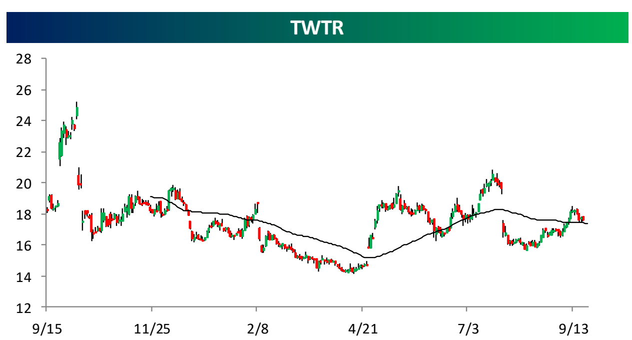
Sociedad Quimica y Minera de Chile remains, in our view, the best-in-breed for the lithium production space, which is riding high on the back of Tesla and the trend towards electric vehicles. But after a surge from entry around $28.40 to a high close right near $62, we're not afraid of a little downside volatility. We note that the ADR had a huge outside day Wednesday, often a sign of changing trend, but that move was entirely because NY-traded ADRs got ahead of the USD value of Chilean shares of SQM. As-of today, the USD value of locally traded shares are at new highs, so it might be a mistake to read too far into the huge red candle from Wednesday. Earnings for SQM are out on November 22.



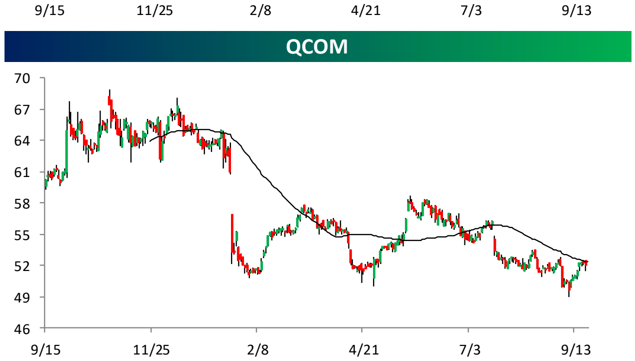
Adobe is having a brutal couple of days as the stock digests sales guidance that indicates slowing growth despite gangbusters growth in revenue and EPS that's bang-on with the recent trend of huge growth for the stock. Back on August 9th, with the stock up 54.8% over entry, we pushed up our stop to $138 (versus $148 price at the time and entry at $95.69); that creates a downside of 8% from here assuming the stop is executable rather than caught up in a large gap down. That would still leave us with a 44% gain off entry over the course of about a year and a half or ~28% annualized.



Check Point Software is a cybersecurity company focused on user verification, controlling access to networks or data, and blocking viruses. In the wake of the Equifax hack and other high profile data breaches we like the name as a way to play the broader concerns companies have around securing their data. Technically speaking $115.50 is the big level, and we want to see shares take big steps above that area before being fully comfortable in the name. Compared to a similar list of peers in the infrastructure software space, CHKP trades at a relatively modest 19.6x one year forward P/E, and less than 13x EV/EBITDA 2 years out. Sales are growing 17% YoY, and 52% FCF margins make the name a strong performer.



We continue to believe the value of Twitter is being mismanaged by the largely inept efforts of management. The stock has triple-bottomed around $14 with tests in Q1 2016, Q2 2016, and Q2 2017. For us so far, it's been largely dead money, but if the stock can break out as it looks like it's trying to do on a very long-term chart, it'll be a winner. Compensation (especially through massive employee stock grants) remains a big concern, and the stock still has yet to make a positive adjusted EPS print in its company history. Eventually we may have to cut the name for its persistent underperformance but given the technical set up, our belief in the platform, and our attractive basis in the stock that day has not come yet.



Qualcomm has also been dead money for us and also has carved out a triple bottom, albeit on a much shorter-term basis. Apple and NXPI merger approval from the EU remain concerns. The company also has litigation against Apple in Germany, which could end up with a ban of Apple devices being imported to Western Europe. US litigation will have an initial judgment in September of 2018, with Q2 of next year the earliest possible date for resolution of the German court case. If $50 holds until then as it has repeatedly in recent months then we're happy to own the name with the thesis that they win judgments against Apple; EPS estimates are still coming down so this by no means a low risk position!

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