Mott Capital Management

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In what felt like the blink of an eye the second-quarter concluded. The Fourth of July holiday is now behind us, with Labor Day quickly approaching. As the year progresses, we need to recognize that some of the euphoric forecasting by investors of a significant market run-up this year was more than a little bit too optimistic. Stocks still have further to rise, but those expectations have dampened, and it may be more of a stock pickers market.

Instead of a soaring stock market driven by earnings growth and significant GDP expansion, the market has been held down by trade wars, rising interest rates, and inflation concerns. It has been increasingly evident to me over the past several weeks that we are now seeing the unwinding of the "Trump Trade," a broad-gauge market advance driven by investors piling into sectors or stocks thought to be beneficiaries of the President's (sometimes scattershot) growth-oriented economic policies. Inevitably, a good part of the initial excitement has faded, and the potential fall-out from a trade war escalation has struck fear into investors of industrial and material stocks.

Investors are now looking to 2019 and reassessing their portfolios based on forward earnings expectations. That may be terrible news for banks, industrials, and material stocks, which are forecast to have significant earnings slow down next year. These three sectors were an early winner of the Trump Trade, riding the wave of enthusiasm surrounding tax reform, which is now well behind us, as is the significant earnings growth that was a result of the new law. Lucky for us, we own no positions in those sectors.

The sectors we do own - consumer discretionary, technology and biotech - should stand to benefit from the unwind of this trade. Each of these asset classes is trade-war neutral. Additionally, if interest rates remain stable with slow adjustments by the Fed, the low-interest rate environment should make these companies attractive to investors seeking strong earnings growth.

In many cases, the stocks that worked the best for us in the first quarter continued to remain hot in the second quarter. It is a trend that should continue for the balance of the year.

Thematic Growth 2018 Performance Results Through 2Q'18

Non-Annualized Performance 1/1/18 – 6/30/18

MCM Thematic Growth Composite*	S&P 500 Total Return Index
4.99%	2.65%

*Net of Fees and Transaction Cost

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Through the first six months of 2018, the MCM Thematic Growth Composite was up just under 5 percent, net of fee and transaction costs. Our composite beat out the broader S&P 500 Total Return Index, inclusive of dividends, by nearly 2.5 percentage points.

Netflix, Tesla, and MasterCard did most of the heavy lifting to help us achieve our outperformance.

MCM 3 Best & Worst Performers for 2Q'18

Netflix +32.5%	Acadia Pharmaceuticals -32.0%
Tesla +28.9%	Alkermes -29%
MasterCard +12.2	Vodafone -12.6%

The Winners

Netflix

Netflix continued to remain hot, rising by over 32 percent in the second quarter, and a total increase of an astonishing 104 percent for the year by the end of the second quarter. Strong subscriber growth continues to be the primary driver, with international subscriber growth starting to gain significant traction.

On July 16 Netflix reported results for its fiscal third quarter that showed the company adding 5 million new subscribers. While robust, results fell short of estimates and guidance by 1 million subscribers and the shares traded down about 12 percent as a result.

The slower than anticipated subscriber growth is no cause for alarm. Over the last several quarters the Netflix subscriber base has increased to 130 million, and the company has also seen a steady climb in per-user revenue over the same period. Together the two act as a double positive for Netflix' future revenue stream. Not only is the company adding more subscribers, but it is also making more money per subscriber, a formula that could have a significant compounding effect on future revenue. I do not expect that growth to slow anytime soon.

As of this writing, shares are currently trading around $356 and even after the sharp fall, the stock is still up about 86 percent year to date.

Tesla

Tesla rose in the second quarter as investors eyed the model 3, the highly anticipated electric 4-door sedan, production rate. The good news is that Tesla did achieve its goal of reaching 5,000 model 3's per week by the end of the quarter and is now targeting 6,000 per week over the coming months.

MasterCard

There is no doubt that if you subscribe to Netflix or purchase items on Amazon.com, you are very likely using a credit card of some sort, and there is an excellent chance it is a MasterCard. The company, along with Visa, continue to be among my two favorite stocks in the portfolio. These two competitors are the unquestioned hub for consumer transactions globally and form the heart of the e-commerce ecosystem. One such example: there could be no Netflix without MasterCard or Visa.

Earnings for these companies continue to be healthy, with sufficient growth to keep their rising stock prices from reaching overvalued levels. The Thematic Growth composite has enjoyed a remarkable performance from its MasterCard and Visa holding since first purchasing them four years ago. Both should continue to outperform for many years to come.

The Losers

Acadia Pharmaceuticals

Acadia seems to be on the "loser" list in all my reports, and each quarter seems to come for different reasons. The stock continues to reel from the negative articles published in the press questioning the safety of Nuplazid, the company's breakthrough treatment for Parkinson's disease psychosis, noted in our last quarterly update. The stock has attempted to recover its losses on several occasions, only to be met by another negative attack from the press with an article doubting the safety of Nuplazid. I am beginning to believe someone out there has a severe grudge against this company, whether it be a short-seller or perhaps an unhappy former regulator, feeding misinformation to media outlets. Notwithstanding this media noise, the FDA recently approved two new dosing options for Nuplazid, an action that seemingly would not have happened if the FDA thought that safety was an issue for the drug.

The company consistently achieves its fiscal performance targets, and most analysts are looking for shares to rise considerably. The average price target on the stock is around $45, almost triple its current price of $16.90.

There may be some good news on the horizon which could reverse the stocks misfortune. Before year-end, the company is expected to release top-line data for a trial using pimavanserin,

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the generic name for Nuplazid, in the treatment of depression. The mechanism of action in pimavanserin bodes well for success in my opinion. If the trial data gives a positive readout, the announcement could be a massive driver for the stock.

Alkermes

Alkermes is another biotech company on the loser list, and it is not the first time it has made it here either. Alkermes is positioned well to continue to grow revenue in the future. Its lead drug Vivitrol is approved for use to treat opioid addiction. Vivitrol currently has a small market share in the ongoing effort to address the opiate epidemic that is ravaging this country; if the company can grow that market penetration, the stock should respond positively. Additionally, the company's lead drug in development, ALKS '5461, will be the subject of the Food and Drug Administration review to be completed later this year. The hope is to receive approval for the drug in the treatment of depression.

I have been asked a couple of times why we continue to be patient with these two biotech companies, despite their horrible performance. I can't wholly disagree; they have been a significant performance disappointment. We stick with them, however, because the compounds and drugs in development offer a great deal of promise. Should these compounds not meet our expectations and shares continue to languish by early next year, then it may be time to sell and move on. For now, we wait for all the hard work, research, time, and money invested to materialize.

Vodafone

Vodafone continues to lag and has not performed at the level that I anticipated. I still believe, though, that there is a future story for this stock.

Vodafone enjoys a unique position of access to wireless customers around the world, and it seems likely that the data connection Vodafone supplies its users will become more critical as technology advances. The advent of 5G will genuinely revolutionize the amount, speed and type of data we get on our mobile devices. In fact, I believe that 5G will, for the most part, eliminate the need for a wired connection even into your home. If people are disconnecting from cable now, wait until 5G comes to market.

One also needs to remember that Vodafone is in parts of the world such as Eastern Europe, Africa, the Middle East and India that do not have the wireline infrastructure of more technologically developed countries, such as our own.

Without the mobile data connections that Vodaphone and its competitors provide, the new era of information sharing cannot be fully achieved. For a silly, but real, example: how else can

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someone stream Netflix on an iPhone in the middle of the Sahara? Therefore, we continue to own Vodaphone.

Portfolio Updates

During the quarter we sold Starbucks, a move I had been thinking about for some time. I was waiting to see if growth would re-emerge, but unfortunately the last set of quarterly results in April indicated that the metrics were flat, and the growth story was all but dead.

We did buy shares of Apple. Yes, Apple - you read that right! For all the press commentary regarding the next generation iPhone, the real story is much bigger than that. The decision to buy Apple centers around subscriber growth for Apple services, everything from the iCloud to content on the iPhone, which is becoming a more significant portion of the overall business and continues to grow.

We need to remember that the iPhone is a gateway, a direct connection to the 200 or so million people that use the device. It would seem like a no-brainer for Apple to continue to gain from those users over time. I believe investors will pay a higher price-to-earnings multiple for the stock. The consistent growth and higher margin subscriber business will remove the overhang of the lumpy phone business, deserving of a higher earnings-multiple than Apple's current one which reflects that of a hardware company.

Thank you for your support over the past four years. 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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The Thematic Growth Composite is a blend strategy of different market capitalizations, which is approximately divided equally among three sectors. The Core Growth sector includes large multi-national companies, the Growth Sector includes mid- to large-cap companies, and the Aggressive Growth sector includes small- to mid-cap companies. The strategy is concentrated, and typically includes approximately 20 positions, and 5% cash. The strategy only invests in stocks, ADRs, and ETFs denominated in USD. The Thematic Growth Composite was created June 2015. The S&P 500 is a free-float capitalization-weighted index of 500 large-cap common stocks actively traded in the United States. The index is shown as a general market indicator and may not reflect the same exposures as the composite. The investment management fee schedule for the composite is 2% on the first $250,000, 1.5% on the next $750,000, and 1.0% on the remainder. Actual investment advisory fees incurred by clients may vary. Further information regarding investment advisory fees is described in Part 2 of the firm's Form ADV. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express 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.