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**1 Q2018 PORTFOLIO UPDATE**  
STEVEN BREGMAN

**April 18, 2018**

- Part 1: Anatomy of Systemic Risk. Where are We, Briefly?
- Part 2: The False Premise of Large Scale Passive Investing: The 'Free-Ridering' Phase of Indexation is Expiring
- Part 3: Are Index Funds Part of Float?
- Part 4: What is the Amazon Index Weight? Bet You Don't Know.
- Part 5: Reprise: Portfolio Weightings in Inflation Beneficiary and Other Non-Correlated Securities

# Where are we?

## U.S. Stock Market Performance

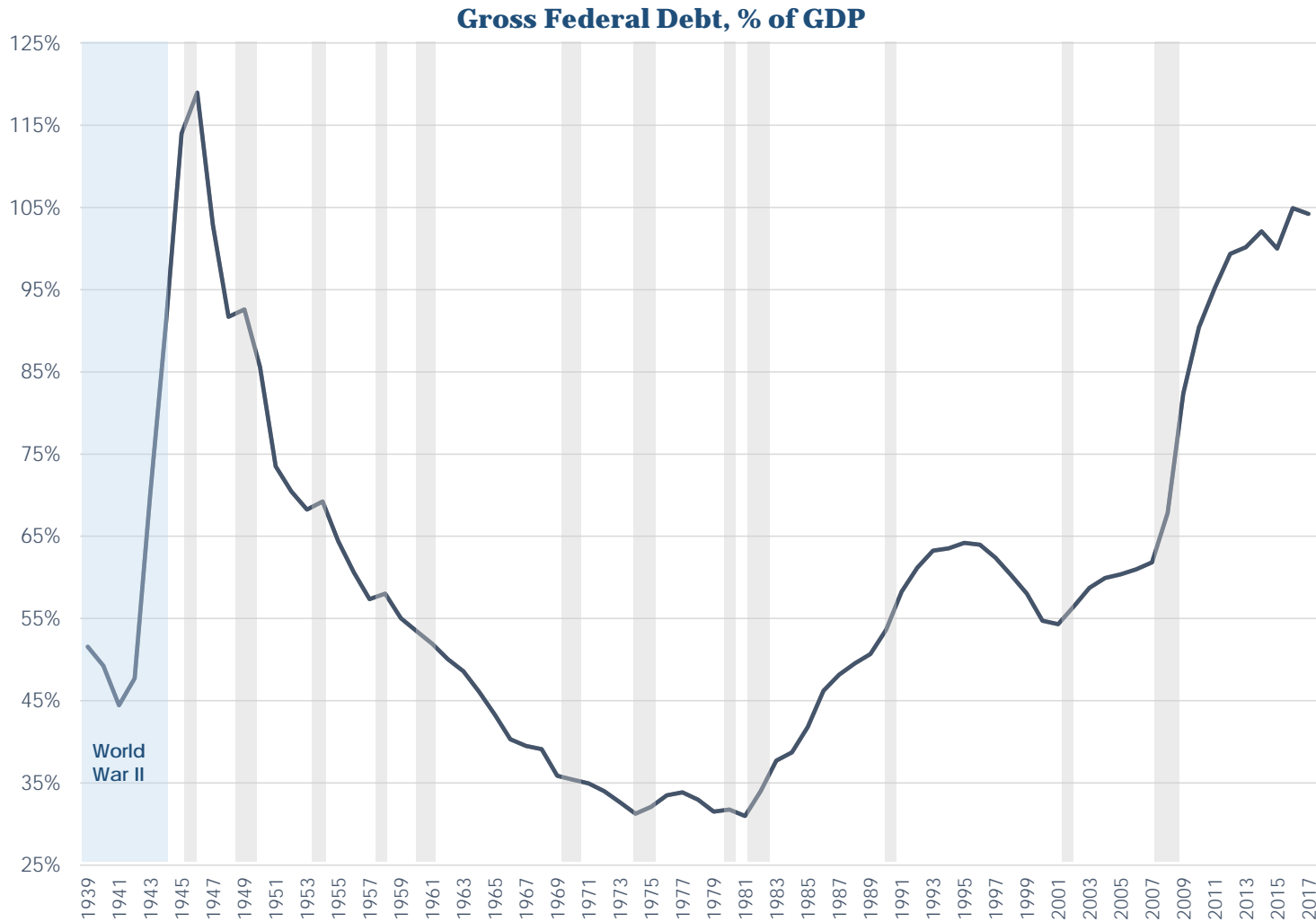
<b>S&amp;P 500 Index*</b>		
<i>As of March 2018 (figures in %)</i>	<b>Annualized Price Return</b>	<b>Annualized Volatility</b>
1 Year	11.77	8.52
5 Year	10.97	9.84
Since year-end 2008	12.30	13.44
20 Year	4.47	14.85
50 Year	6.99	14.98
Since 1928	5.71	18.65

Source: Bloomberg

Returns and volatility are for the S&P 500 Index, which launched on March 4, 1957. S&P Indices provides back-tested data to January 3, 1928, based on the methodology that was in effect on the launch date. For more information, including the complete methodology document, please visit:

<http://www.spindices.com/indices/equity/sp-500>

# Another Way to Think About Systemic Risk



Source: Federal Reserve Bank of St. Louis.

**Grey shaded areas indicate U.S. recessions** (<https://fredhelp.stlouisfed.org/fred/data/understanding-the-data/recession-bars/>)

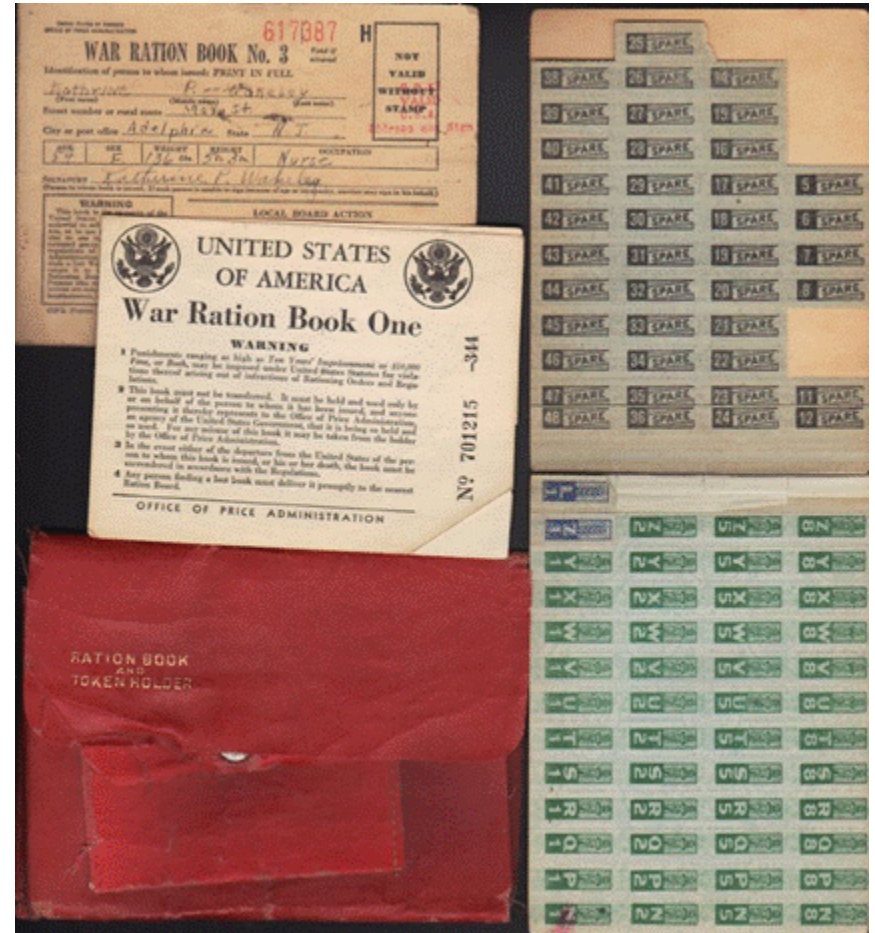
# An Illustration

## World War II Ration Books

This set of World War II ration books, stamps and cloth ration book and token holder, with 24 months of stamps, was issued in 1942 to a nurse living in Adelphia, NJ. It may be purchased for \$35 on Biblio.com.

That \$35 today, converted to 1942 purchasing power after 75 years of inflation, would have been equivalent to \$550 to that nurse, about a year's worth of rent.

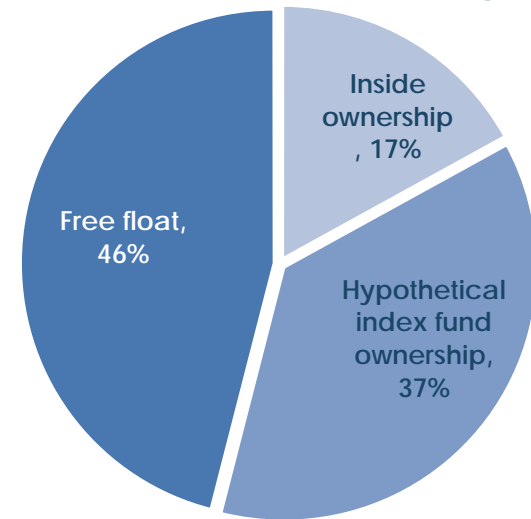
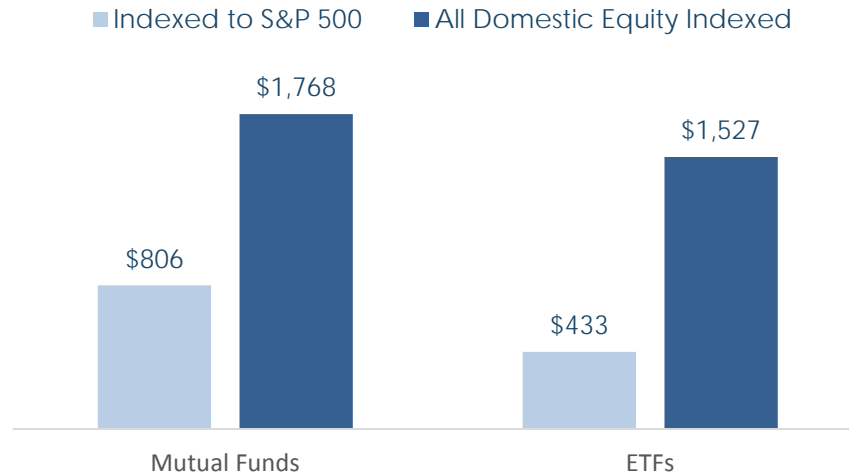
The average median rent in New Jersey in 1940, according to the U.S. Census Bureau was \$36 per month. Manhattan, of course, was more expensive: although rents in the Lower East Side were less than \$30 (a "pleasant" 4-room ground-floor Greenwich Village apartment with no heat went for \$27), Washington Square Park rents were as high as \$150 or more. Isn't that always the way?



# The False Premise of Large Scale “Passive” Investing

## Are Index Funds Part of the Float?

### Amazon Shares Outstanding



The concept of float was originally based on the presumption that any holder could, theoretically, offer to sell shares at any moment at which the price is sufficiently or enticingly high.

For an index fund, though, there is no such thing as an enticing price. There is only an efficient price—in fact, **the price is always presumed to be efficient**, and the index and ETF transaction rules are written that way.

If index funds today hold 37% of Amazon’s shares and the employees hold another 17%, the available float is only 46%, a minority of the market capitalization. We’ve begun to enter uncharted territory.

# Another Simple Question

What is the Amazon Index Weight?

<b>Amazon Weight in Various ETFs Versus Supply</b>		
<u>Ticker</u>	<u>Company</u>	<u>Weight</u>
SPY	SPDR S&P 500 ETF	2.75%
QQQ	PowerShares QQQ ETF (NASDAQ 100)	9.80%
VUG	Vanguard Growth ETF	5.81%
XLY	Consumer Discretionary Select Sector SPDR Fund	21.63%
FDN	First Trust Dow Jones Internet ETF	9.99%
IVW	iShares S7P 55 Growth ETF	5.18%
IGM	iShares North American Tech ETF	8.68%
<b>IVV</b>	<b>iShares Russell 3000 ETF = market supply</b>	<b>1.97%</b>

*Source: ETF Sponsor websites*

*The Russell 3000 Index, which covers approximately 98% of the U.S. equity market, can be considered to be a proxy for the available supply of stock.*

*The S&P 500 Index captures approximately 80% of available market capitalization.*

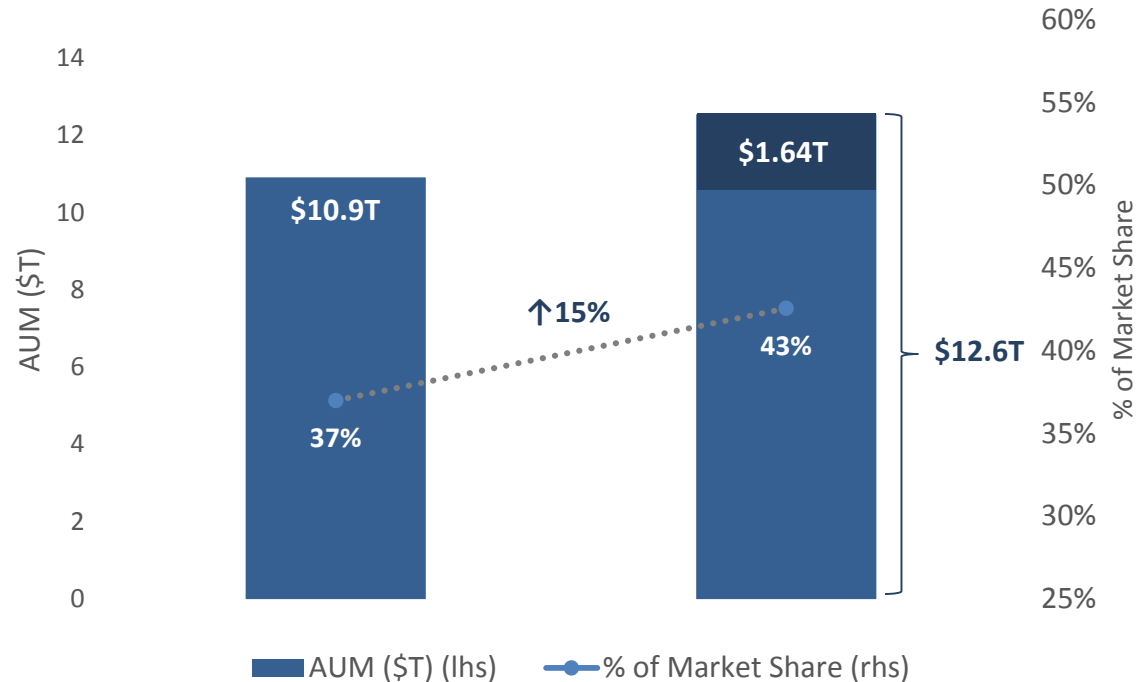
# So, What *Is* the Market Weight of Amazon?

## An Exception to the Law of Supply and Demand

*Classical economic theory states that demand declines as the price increases.*

*But in the world of investing, demand actually increases in the short run as the price increases – because of everyone who wants to own the shares of what’s going up. The active managers might not provide the supply the indexes need.*

*In this example, there would be enough Amazon shares to supply the demand. **But what if the active managers decided to sell less of Amazon than other holdings, or to make Amazon a larger position?***



*An illustration assuming a 15% expansion in indexation next year (indexation AUM has expanded at a 20% rate for the past 3 and 5 years), from a market share of 37%, in which case indexation will be a roughly 43% share of the U.S. equity market.*

*The size of the entire U.S. equity market is measured by the Russell 3000 market capitalization, which amounts to roughly \$29.5 trillion.*



# Our Portfolios



## Inflation Beneficiaries and Other Diversifying or Counter-Cyclical Holdings

Strategy Weights as of March 31, 2018				
	Core Value	%	Small Cap	%
<b>Marine Drilling and Shipping</b>	A.P. Moller - Maersk Navigator Holdings Subsea 7 S.A. Sponsored	<b>10.8</b>	A.P. Moller - Maersk Braemar Shipping Services Clarkson Stolt-Nielsen Subsea 7	<b>5.4</b>
<b>Precious Metals</b>	Royal Gold Wheaton Precious Metals	<b>7.5</b>	Franco-Nevada Wheaton Precious Metals	<b>0.6</b>
<b>Real Estate, Infrastructure<sup>1</sup></b>	Brookfield Asset Management Howard Hughes Texas Pacific Land Trust	<b>16.0</b>	DREAM Unlimited Equity LifeStyle Properties, Inc. Howard Hughes Corporation Texas Pacific Land Trust	<b>23.7</b>
<b>Oil &amp; Gas, Mining<sup>1</sup></b>	Cheniere Energy Convertible Civeo Texas Pacific Land Trust	<b>13.3</b>	Civeo Corp Permian Basin Royalty Trust Texas Pacific Land Trust	<b>20.6</b>
<b>Consensus Money (Crypto)</b>	Cboe Global Markets CME Group GMO Internet Inc. HIVE Blockchain Technologies	<b>7.1</b>	Bitcoin Investment Trust	<b>0.4</b>
<b>Other Counter-Cyclical</b>			Associated Capital Group Icahn Enterprises	<b>8.0</b>
<b>Sub-Total: Securities (%)</b>		<b>54.7</b>		<b>58.6</b>
Cash & Short-Term Funds		<b>19.3</b>		<b>18.5</b>
<b>Total: Securites, Cash (%)</b>		<b>74.0</b>		<b>77.0</b>

<sup>1</sup>TPL given one-half weight in each of Real Estate/Infrastructure and Oil & Gas/mining

Source: Fiserv APL, Based on the Strategy's current values in the accounts, not model weights (as of 3/31/2018)

TPL is at an inflection point in its business development, in its profitability and, as well, in its capital allocation decisions.

TPL is amongst the 20-best performing stocks on the NYSE in the past 5 years, the past 10, and the past 20. In the past 45 years, it has returned 17.1% annually, versus 10.5% for the S&P500.

Nevertheless, with fewer than 20,000 shares traded on an average day, it has insufficient liquidity for indexation/ETF use, and there is not one published Wall Street earnings estimate. Recent developments suggest that the very significant value creation witnessed in the past several years will be persistent for quite some time to come.

	<b>Δ in 2016</b>	<b>Δ in 2017</b>
<b>Oil and Gas Royalties</b>	↑ 21%	↑ 79%*
<i>Oil Volume Production</i>	↑ 48%	↑ 44%
<i>Gas Volume Production</i>	↑ 37%	↑ 60%
<b>Easement and Sundry Income</b>	↓ 31%**	↑ 144% (↑ 68% vs 2015)
<b>Water Sales and Royalties</b>	↑ 69%	↑ 214%

Source: TPL's 2017 Annual Report

\* Excluding \$7.7 million related to an arbitration settlement with Chevron U.S.A., Inc.

\*\*Through 2017, the Trust deferred recognition of non-current-year income from new easement contracts, recognizing the balance ratably over a 10-year period.

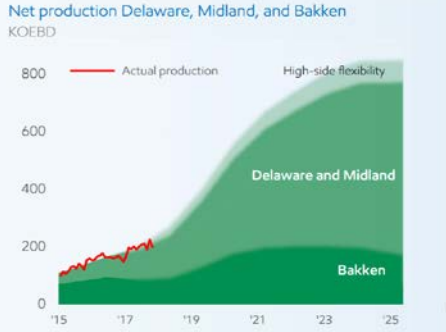
## Massive Planned Production Growth for the Region

### Exxon Mobile 4Q2017 Earnings Presentation

#### Growing unconventional liquids

Continuing to maximize capital efficiency

- Ramping up drilling in Permian and Bakken
  - 26 rigs growing to 36 by YE18
- Driving industry-leading capital efficiency
  - Optimizing lateral length/completion designs
- Assessing potential in additional Permian stacked pay zones
- \$2 billion planned infrastructure investments

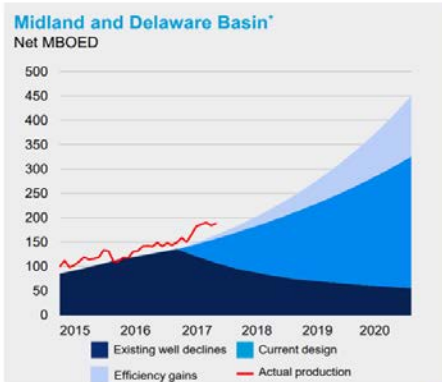


Net production Delaware, Midland, and Bakken  
KOEBO

23 | ExxonMobil fourth quarter 2017 earnings call

### Chevron 4Q2017 Investor Day Presentation

#### Permian production



Midland and Delaware Basin\*  
Net MBOED

Exceeding expectations

Effective new Basis of Design

Standing up 15th company operated rig

Seeking further enhancements through technology & data analytics

\* Reflects shale and tight production only; upside cases not depicted in graph.

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The above excerpts are only a portion of the companies' presentations and are being provided to demonstrate the planned production of growth for the Permian region.

# Subsea 7

## An Entirely Different Animal

<b>Thing One</b>	<b>Δ since 2012</b>
Revenue	↓ 37%
<i>Worldwide Offshore Rig Count</i>	↓ 40%
<i>WTI Crude Oil Price</i>	↓ 33%
Share Price	↓ 40%

<b>Thing Two</b>	
Current Assets	\$2.2 billion
<i>Of which Cash</i>	<i>\$1.1 billion</i>
Short-term liabilities	\$1.3 billion
Non-current debt & other liabilities	\$0.5 billion
Free cash flow, net of taxes and capital expenditures	\$730 million
Price to Free Cash Flow	6.6x
Share repurchases in 2017	3.8% of shares outstanding (17% since 2012)
Book value per share growth in 2017	7%

Source: Company reports, Baker Hughes

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*Past performance is not indicative of future results. The information contained herein is subject to explanation during a presentation.*

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*The S&P 500 Index ("SPX") is a broad based index widely considered as a proxy for overall market performance. It is the property of Standard & Poor's®.*

*The Russell 3000 Index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities. It is property London Stock Exchange Group.*

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