Titan Capital Management

Fall 2022

PROFIT AND LOSS REPORT

Analyst: Jacquelyn George, Sam Fedrow, Israel Nazari, Brandon Leon
Sector: Industrials

TITAN | CAPITAL MANAGEMENT

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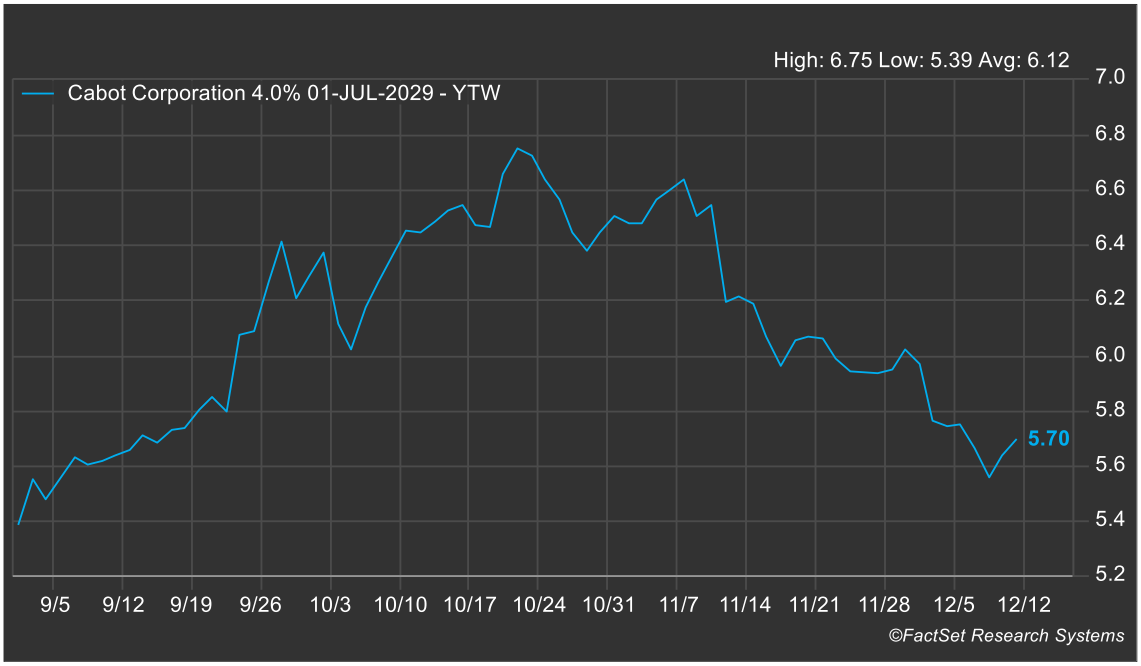
Chart

Company Name	Ticker or Cusip	Sector	Stock or Bond?	^Performance Start Date	Buy or Sell?	Trade executed? (Y/N)	^Dividends Paid ($) or Coupon Rate (%)	Original Price	11/30 Price	Position Total Return	SPY/AGG Total Return	Excess Return	Position Success?
Advance Auto	00751YAE6	Industrials	Bond	8/31/2022	Buy	Y	3.90%	$115.68	$84.78	-25.87%	-1.77%	-24.11%	No
Atkore	ATKR	Industrials	Stock	11/1/2022	Buy	Y	$0.00	$97.73	$125.03	27.93%	3.59%	24.35%	Yes
Automatic Data Processing	ADP	Industrials	Stock	8/31/2022	Buy	Y	$1.04	$257.97	$262.87	2.30%	3.59%	-1.28%	No
Cabot Corp	127055AL5	Industrials	Bond	8/31/2022	Buy	Y	4.00%	$109.00	$86.54	-19.69%	-1.77%	-17.92%	No
Caterpillar	CAT	Industrials	Stock	8/31/2022	Buy	Y	$1.20	$183.48	$230.92	26.51%	3.59%	22.92%	Yes
L3 Harris	502431AM1	Industrials	Bond	8/31/2022	Buy	Y	4.40%	$107.93	$93.75	-12.12%	3.62%	-15.73%	No
Lockheed Martin	LMT	Industrials	Stock	8/31/2022	Buy	Y	$5.80	$417.51	$485.38	17.65%	3.59%	14.06%	Yes
Micron	595112BN2	Industrials	Bond	8/31/2022	Buy	Y	5.33%	$105.90	$92.38	-11.52%	3.62%	-15.13%	No
Republic Services,	RSG	Industrials	Stock	9/1/2022	Buy	Y	$0.90	$143.97	$139.29	-2.63%	3.59%	-6.21%	No
Steel Dynamics	STLD	Industrials	Stock	8/31/2022	Buy	Y	$0.34	$80.34	$102.29	27.74%	3.59%	24.16%	Yes
Union Pacific Corp	UNP	Industrials	Stock	9/1/2022	Buy	Y	$0.00	$226.06	$217.43	-3.82%	8.97%	-12.79%	No
Valvoline Inc.	VVV	Industrials	Stock	11/1/2022	Buy	Y	$0.13	$29.64	$32.98	11.71%	3.59%	8.12%	Yes
Waste Management	WM	Industrials	Stock	8/31/2022	Buy	Y	$1.30	$167.74	$167.07	0.38%	3.59%	-3.21%	No
Xylem Inc.	98419MAJ9	Industrials	Bond	8/31/2022	Buy	Y	3.25%	$103.60	$92.04	-10.38%	-1.77%	-8.61%	No

Advance Auto Parts (AAP)

Executive Summary as of 12/11/2022

Advance Auto Parts is one of the industry's largest retailers of aftermarket automotive parts, tools, and accessories to do-it-yourself customers and third-party vehicle repair facilities in North America. Advance operated 4,972 stores as of the end of 2021, in addition to servicing 1,317 independently owned Carquest stores. The company's Worldpac unit is a premier distributor of imported original-equipment parts. Advance derived 58% of its 2021 sales from commercial clients, with the remainder from DIY shoppers.



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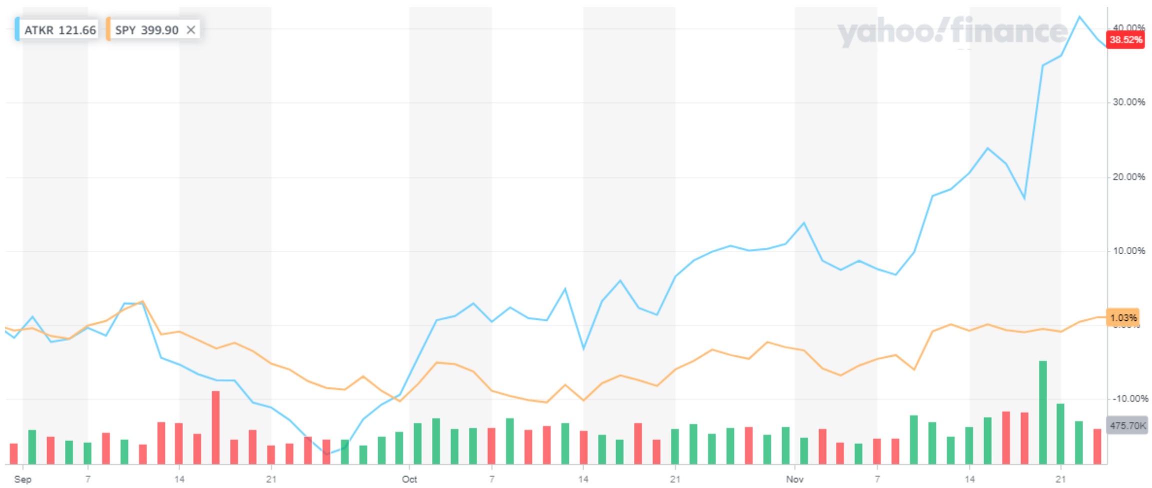
Advance Auto	00751YAE6	Industrials	Bond	8/31/2022	Buy	Y	3.90%	$115.68	$88.29	-22.84%	-1.77%	-21.07%	No

Advance Auto's 2030 bond (00751YAE6) is a BBB- investment grade corporate bond that the analyst recommended at the time to increase the portfolio's weighted average duration while increasing its yield-to-maturity. It was also meant to increase exposure to the automotive industry while decreasing the idle cash within the portfolio. The underperformance relative to scaled peers this year is due to its ongoing turnaround, with work remaining to improve part availability and bolster service levels. Total position returns for the time were -22.84%, as the bond had headwinds of unfavorable interest rate hikes and inflating fuel prices in 2022. The bond was purchased at a premium ($115.68), and the Industrials team would place an underweight rating on it.

Atkore (ATKR)

Executive Summary as of 12/09/2022

A recommended BUY rating was placed on Atkore (ATKR) in November 2022 based on the following investment catalysts: 1) long-term, secular demand for its products from heightened investment into infrastructure and green energy; 2) its growing economic advantage; and 3) a strong M&A pipeline which provides significant growth opportunities.



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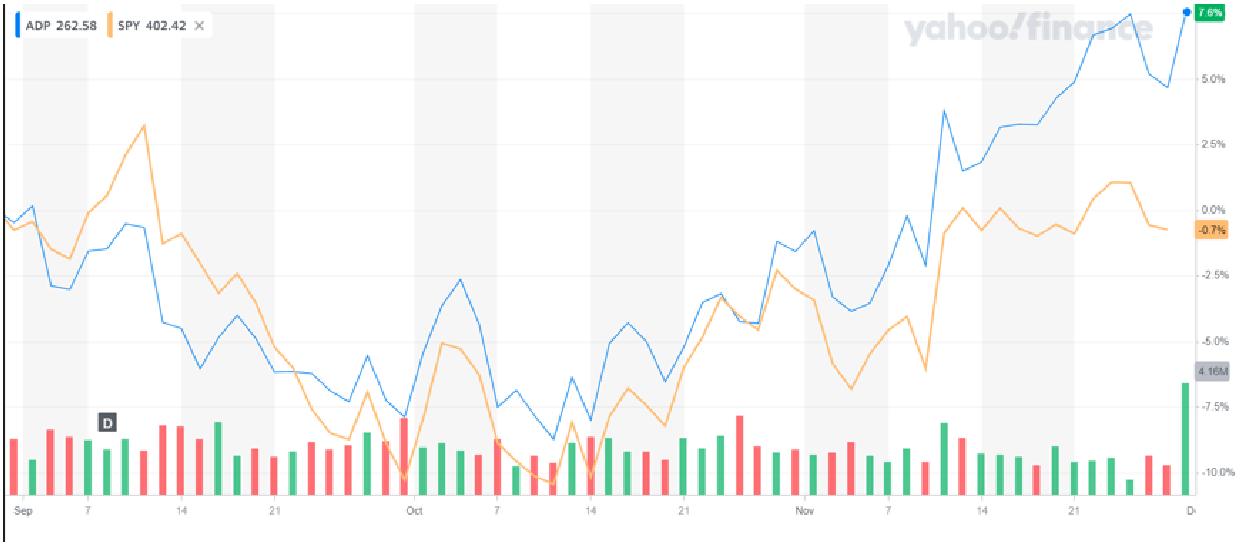
Atkore	ATKR	Industrials	Stock	11/1/2022	Buy	Y	$0.00	$97.73	$125.03	27.93%	6.02%	21.91%	Yes

Since Atkore was added to the portfolio, it has posted strong returns of 27.93%. Though cooling economic conditions may threaten demand, the company is directly benefiting from the move towards electrical infrastructure spending. Government investment will go directly into projects that utilizing Atkore's products, and the modernization of infrastructure across the country will provide additional demand. Atkore's business model is suited to margin expansion as construction demand rebounds, with strong distributor relationships and ability to pass costs to the consumer. The M&A landscape is ideal for the company, and it is likely to succeed in its M&A strategy to access new areas and customers. We maintain our BUY rating for Atkore and believe it can sustain market-beating performance in coming years.

Automatic Data Processing (ADP)

Executive Summary as of 12/11/2022

Automatic Data Processing (ADP) provides cloud based human capital management solutions across the globe. The two segments that ADP operates through are Employer Services and Professional Employer Organization (PEO). Employer Services includes strategic cloud-based platforms and human resources outsourcing solutions. The HR solutions include payroll, benefits administration, talent management, HR management, workforce management and more. The PEO segment includes HR outsourcing through a co-employment model to small and mid-sized businesses. ADP's drivers of performance have been solid earnings numbers which lead to an increase in dividends by 20% to $1.25 a share as well Automatic Data Processing's total return is 2.30% which is an excess return of -1.28%.



Given Automatic Data Processing's consistent dividend we recommend a market weight. ADP provides inelastic services which always for a stable position if there were to be an economic slowdown. During bear markets, ADP has shown itself to outperform the S&P 500 index, showing its resilience during economic slowdowns. As businesses look to cut costs by turning to automation, ADP could boost revenues since this is a service that they offer.

Cabot Corp (CBT)

Executive Summary as of 12/11/2022

Cabot Corp manufactures and sells a variety of chemicals, materials, and chemical-based products. The company organizes itself into two segments based on the product type. The reinforcement materials segment, which generates more revenue than any other segment, sells rubber-grade carbon black products used in hoses and belts in automobiles. The performance chemicals segment sells ink-jet colorants and metal oxides used in the automotive and construction industries.

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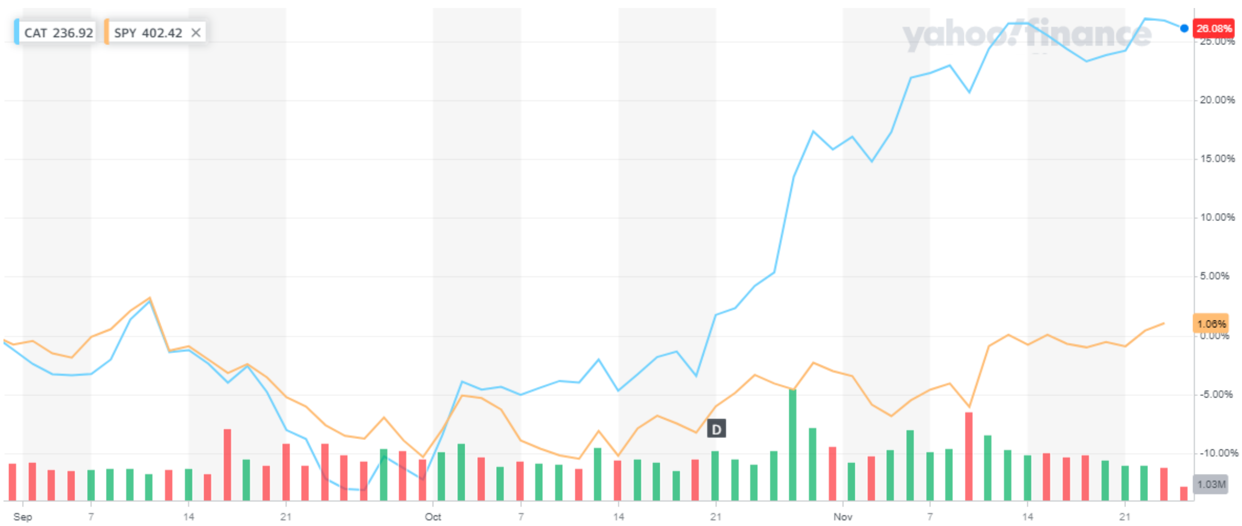
Cabot Corp	127055AL5	Industrials	Bond	8/31/2022	Buy	Y	4.00%	$109.00	$86.54	-19.69%	-1.77%	-17.92%	No

Cabot Corps.'s 2029 bond (127055AL5) is a BBB investment grade corporate bond that the analyst recommended at the time to increase the portfolio's weighted average duration while increasing its yield-to-maturity. It was also meant to increase exposure to the chemicals industry while decreasing the cash within the portfolio. The company's various segments continue to outperform. Cabot is improving margins through pricing and volume both, even though fixed costs are increasing across the business. It is not just one sub-segment, but every sub-segment in the company is improving its margin trends through pushing pricing, with a very strong demand for battery materials and other company products and commodities. There is continued momentum in Battery Materials, with an ever-growing demand for exactly these types of products. However, the total position return was -16.26%, as the bond was impacted by unfavorable interest rate hikes in 2022. The bond was purchased at a premium ($109.00), and the Industrials team would place an underweight rating on it.

Caterpillar (CAT)

Executive Summary as of 12/09/2022

A recommended BUY rating was placed on Caterpillar (CAT) in December 2019 based on the following investment catalysts: 1) strength in North American construction; 2) economic expansion in Guyana; and 3) reduced business cyclicality as a result of restructuring to offset downturns. These catalysts have persisted, and new drivers have emerged that show continued promise for the company.



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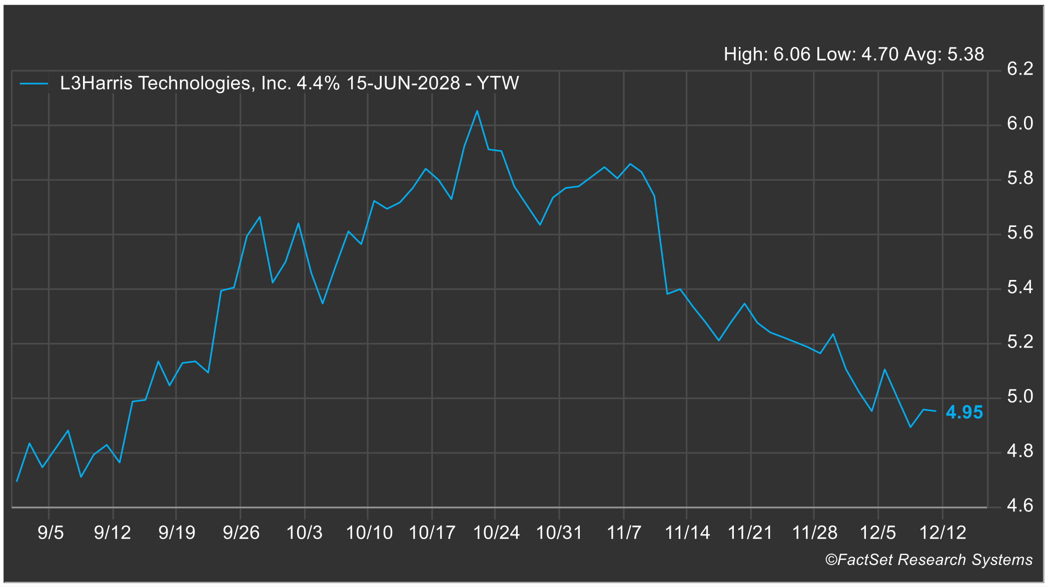
Caterpillar	CAT	Industrials	Stock	8/31/2022	Buy	Y	$1.20	$183.48	$236.41	29.50%	3.59%	25.91%	Yes

Since the beginning of the semester, Caterpillar has performed very well, with a total return of 29.50%. Caterpillar has a strong history and reputation, and is the world's largest construction equipment and manufacturing company. Though construction has experienced a slowdown, Caterpillar enjoys strong pricing power and is able to maintain its solid financials. It continues to secure strong contracts and expand into new geographies, and offers a diverse range of products that can help reduce cyclicality. Overall, we maintain a BUY rating on Caterpillar, and believe that it will continue to be a strong performer in the portfolio.

L3 Harris (LHX)

Executive Summary as of 12/11/2022

L3Harris Technologies, Inc., is an aerospace and defense technology company that provides mission-critical solutions for government and commercial clients worldwide. The company's Integrated Mission Systems division offers communication systems, multi-mission intelligence, surveillance, and reconnaissance (ISR) systems, fleet management support, sensor development, modification, and routine depot maintenance services.



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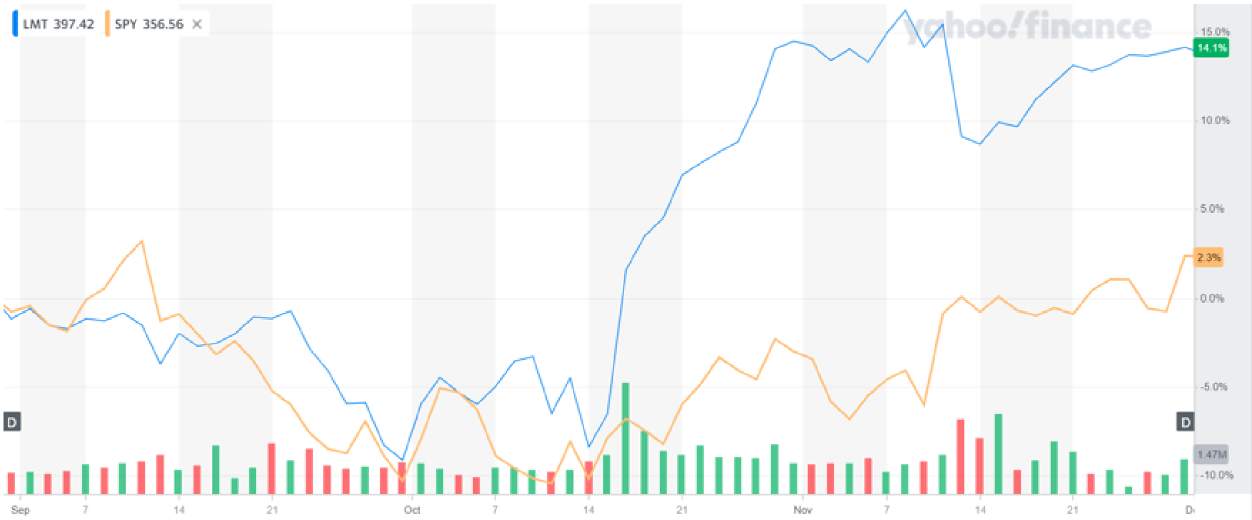
L3 Harris	502431AM1	Industrials	Bond	8/31/2022	Buy	Y	4.40%	$107.93	$93.75	-12.12%	3.62%	-15.73%	No

This 2028 BBB L3Harris Technologies investment grade corporate bond was recommended at the time with the intention of increasing the portfolio's weighted average duration and yield-to-maturity. It was also meant to increase exposure to the defense industry and decrease the cash that was held at that time. While it might have seemed prudent at the time to add L3 Harris to the portfolio given the geopolitical conflicts in easter Europe, unfortunately, this bond has not had a favorable return. The position total return was -12.12%. Longer duration have seem unfavorable in these rising interest rate environment and given that this particular bond was purchased at a premium ($107.652) we would place an underweight rating on it.

Lockheed Martin (LMT)

Executive Summary as of 12/11/2022

Lockheed Martin is a globally operating American security and aerospace company that designs, develops, and supports advanced technology systems, products, and services for military, civil, and commercial use. The company has a favorable position to grow amid expanding government defense spending worldwide, which complements its directed growth strategy. Its consistently positive free cash flows allow the company to reinvest in its business and return capital to shareholders. Although risks arise from supply chain disruptions and the legal and regulatory industry environment, these factors will not have a material impact on Lockheed Martin's industry position. LMT's total return was 17.60%, which is an excess of 14.01%.

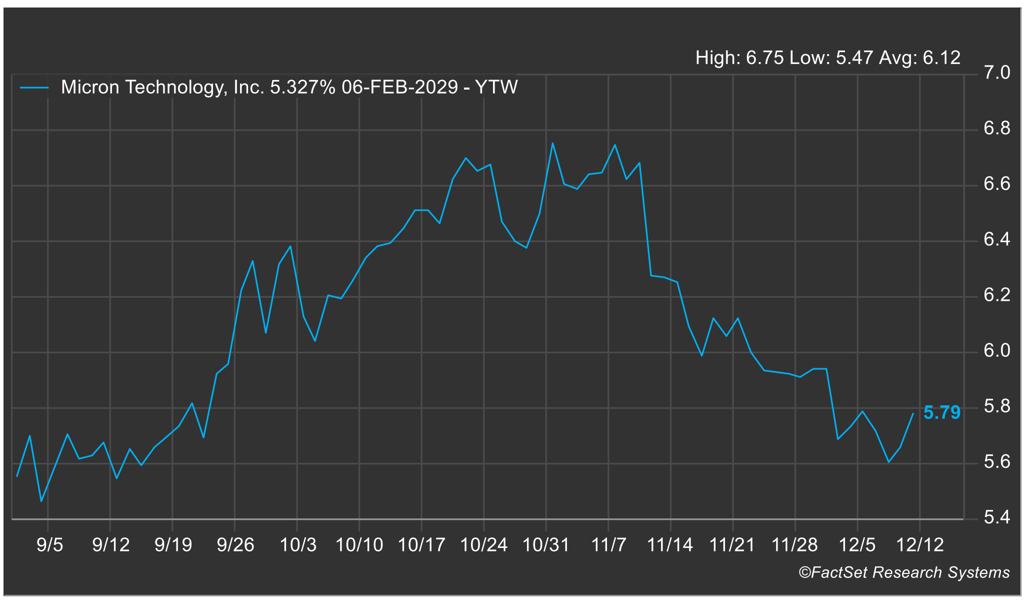


Given the below growth for the defense industry during COVID and the ongoing tensions in Russia and Ukraine, we recommend an overweight for LMT going forward. The United States increased spending for FY 2022 defense budget in March after already having a higher budget. In FY 2023, spending for defense is expected to grow 6% year over year. A problem that has impacted defense companies like Lockheed Martin is that their contracts normally include fixed price contracts which means inflation will most likely impact margins for the upcoming year.

Micron (MU)

Executive Summary as of 12/11/2022

Micron Technology is a prominent supplier and manufacturer of memory and storage used in a plethora of electronic devices ranging from personal computers to smartphones. The firm is number three in market share for total memory/storage shipments, after Samsung and SK Hynix. DRAM accounts for about 70% of total revenue, with NAND making up the remainder. As Micron operates in the highly competitive and cyclical memory space, we believe its long-term profitability will be somewhat volatile, though recent consolidation has helped mitigate the sharp swings Micron and its peers have experienced historically.



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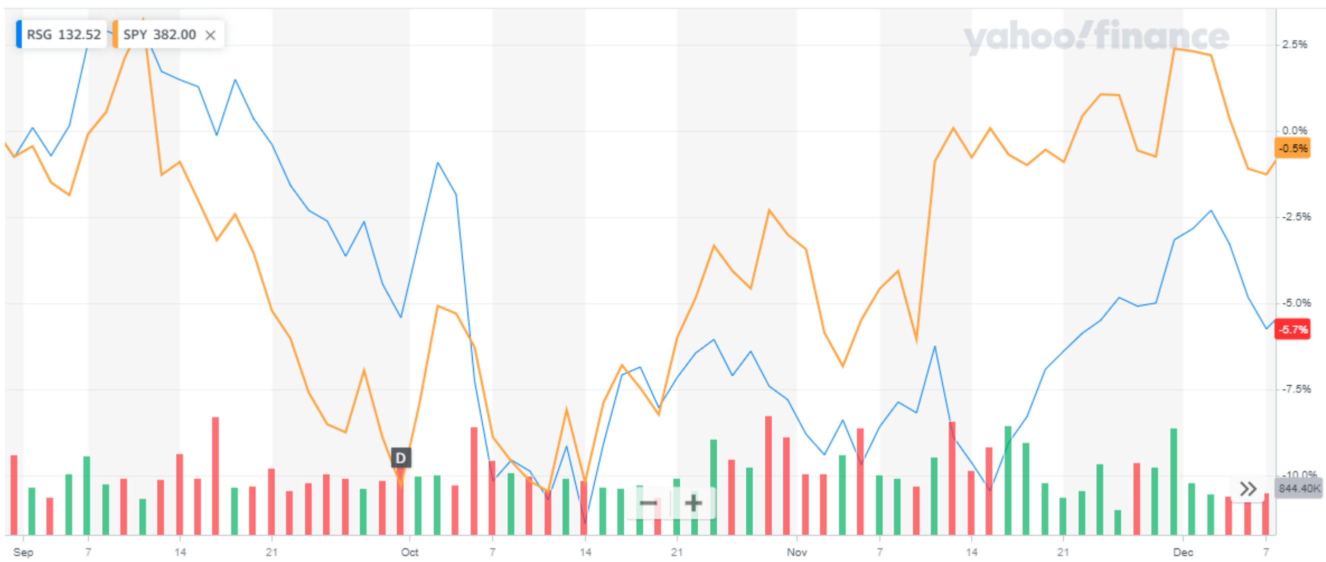
Micron	595112BN2	Industrials	Bond	8/31/2022	Buy	Y	5.33%	$105.90	$92.38	-11.52%	-1.77%	-9.75%	No

Micron Technologies 2029 bond (59112BN2) is a BBB- investment grade corporate bond that the analyst recommended at the time to increase the portfolio’s weighted average duration and yield-to-maturity. It was also meant to increase exposure to the fast-growing microchip industry and decrease the cash within the portfolio. Although we believe profitability will be volatile, with a weaker 2023 due to the sector being inherently cyclical, we believe Micron is profitable moving forward as revenues will grow due to improved DRAM pricing as well as more significant memory and storage requirements across servers, computers, tablets, phones, and other electronics. The total position return was -7.15%, as a longer duration has seemed unfavorable during an increasing interest rate environment in 2022. The bond was purchased at a premium ($105.90), and the Industrials team would place an underweight rating on it.

Republic Services, Inc. (RSG)

Executive Summary as of 12/11/2022

Republic Services, Inc., and its subsidiaries, offer environmental services in the United States. The business provides recycling material collection and processing, non-hazardous solid waste collection, transfer, and disposal, as well as other environmental solutions. However, despite Republic Services having significant advantage over smaller players, the company is also significantly challenged by being the smaller player in the industry's duopoly.



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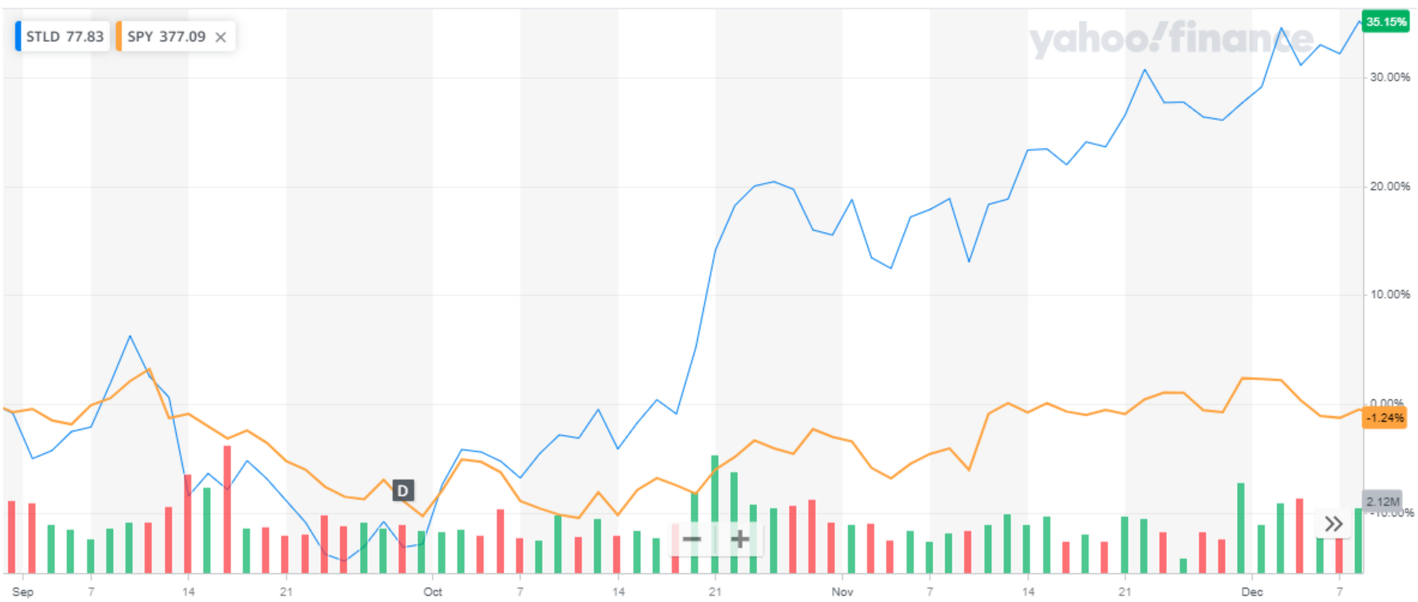
Republic Services,	RSG	Industrials	Stock	9/1/2022	Buy	Y	$0.90	$143.97	$139.29	-2.63%	3.59%	-6.21%	No

Out of the 2,627 landfills in the United States, Waste Management and Republic Services are the industry leaders in solid waste management and collectively hold around 480 of them. However, WM is the clear leader in terms of market capitalization and landfill ownership making the lack of competitive advantage the demise of Republic Services. Overall, the position had a negative total return of -2.63% and given that they continue to lag behind WM, we should consider it prudent to give the company an underweight rating and invest in WM instead.

Steel Dynamics, Inc. (STLD)

Executive Summary as of 12/11/2022

Steel Dynamics, Inc. and its subsidiaries run businesses that make steel and recycle metal in the United States. Steel Operations, Metal Recycling Operations, and Steel Fabrication Operations make up its three operating segments. Since 08/31/2022 Steel Dynamic's has benefitted from a very unusual scenario. Global energy costs have skyrocketed, which has reduced steel production abroad. This is helping US based companies, and the war in Ukraine is hastening the process even further. Steel Dynamics has risen more than 30% year-to-date and more than 60% over the past 12 months.



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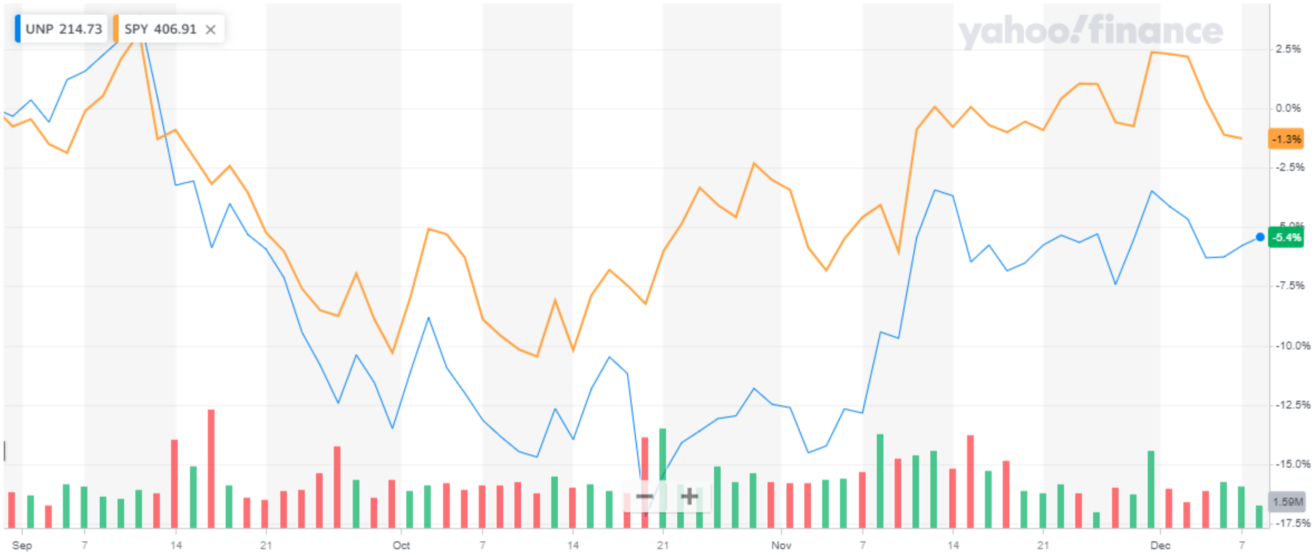
Steel Dynamics	STLD	Industrials	Stock	8/31/2022	Buy	Y	$0.34	$80.34	$102.29	27.74%	3.59%	24.16%	Yes

STLD made an overall positive contribution of 27.74% in the portfolio. From an industrial perspective, steel prices are starting to calm down, with futures down about 40% (YTD) and current prices maintaining steady through 2023. As a result, STLD's revenue margins will suffer greatly in the next years. As a result, we would consider it prudent to place a market weight rating on this position within the portfolio(s).

Union Pacific Corp (UNP)

Executive Summary as of 12/11/2022

Through its subsidiary, Union Pacific Railroad Company engages in railroad operations in the US. The company provides transportation services for grain and grain products, fertilizers, food and refrigerated products, coal and renewables to grain processors, animal feeders, ethanol producers, and other agricultural users, petroleum, and liquid petroleum gases, construction products, industrial chemicals, plastics, forest products, specialized products, metals and ores, soda ash, and sand as well as finished automobiles, automotive parts, and goods in international markets.



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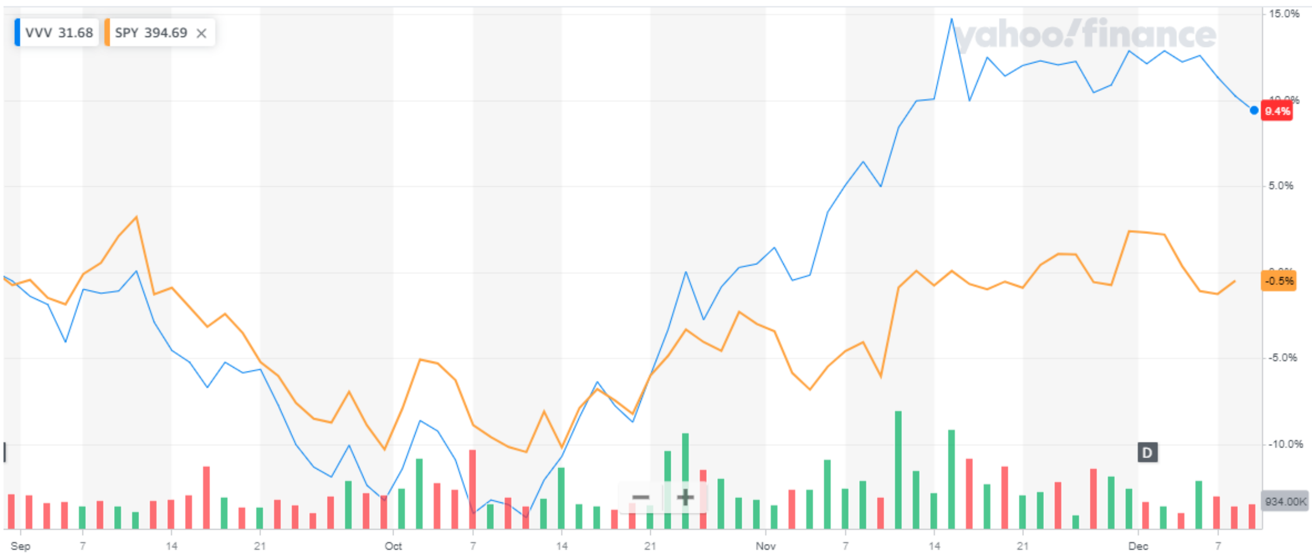
Union Pacific Corp	UNP	Industrials	Stock	9/1/2022	Buy	Y	$0.00	$226.06	$217.43	-3.82%	8.97%	-12.79%	No

However, UNP has faced some headwinds and as a result the position provided an unfavorable return of -3.82%. A bill was passed by both the Senate and the House to prevent future railroad strikes after the unions were in dispute with the government and rail companies about pay, job cuts, and changes to terms and conditions. Union Pacific owns around 80% of the 32.5K route miles it operates. Additionally, UNP has the highest yield and highest long-term dividend growth rate. However, UNP's efficiency ratings did fall a bit during the quarter and as a result, management lowered its expectations for forward-looking efficiency ratings considering inflationary pressures. Therefore, we would give Union Pacific Corp., an underweight rating.

Valvoline, Inc. (VVV)

Executive Summary as of 12/11/2022

A recommended BUY rating was placed for Valvoline, Inc. (VVV) in late October 2022 due to three main drivers: 1) The pending deal allows Aramco to sell all of Valvoline's Global Products (VGP). While Valvoline will focus solely on its faster-growing, higher-margin automotive service sector. 2) Automotive Services are non-cyclical and used more for preventative care when a worsening economy is expected. 3) The long-term organic growth strategy is to expand 150 stores in North America annually and increase retail footprint and revenues.



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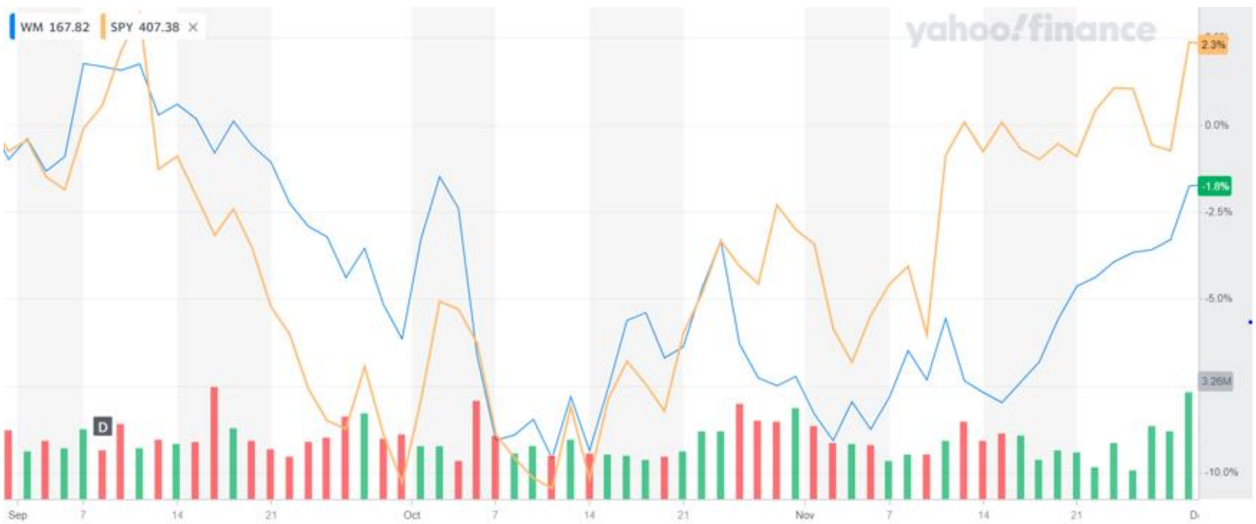
Valvoline Inc.	VVV	Stock	11/1/2022	Buy	Y	$0.13	$29.64	$32.98	11.71%	6.02%	5.68%	Yes

Since the recommendation was written, Valvoline has had a positive overall return of 8.30%. In November, Valvoline declared a $0.13 quarterly dividend and the price of the stock has been steadily rising since the purchase date. This is in line with the catalyst presented by the analysts of this report. The transaction with Aramco is expected to close in early calendar year 2023. Once the transaction closes, Valvoline will retain the Valvoline brand for all retail services purposes globally. Estimated net proceeds of approximately $2.25 billion, after taxes and other expenses, are expected to be utilized to accelerate the return of capital to shareholders through share repurchases with the remainder used for debt reduction and to invest in growth opportunities within the retail service business. Based on the continued expectation of unlocked value, we would rate Valvoline as overweight.

Waste Management (WM)

Executive Summary as of 12/11/2022

Waste Management (WM) provides waste management environmental services to many different customers. WM customers include residential, commercial, industrial, and municipal customers all in North America. Its three segments of revenue are broken down into Tier 1 which includes southern states, Tier 2 2which includes Midwest and Northeast, and Tier 3 which includes the Northwest, MidAtlantic and Eastern Canada. The services that are provided include picking up and transporting recyclables, operating landfill gas-to-energy facilities, and transfer stations. WM's total return is 0.38%, which reflects a negative 0.30% excess return.

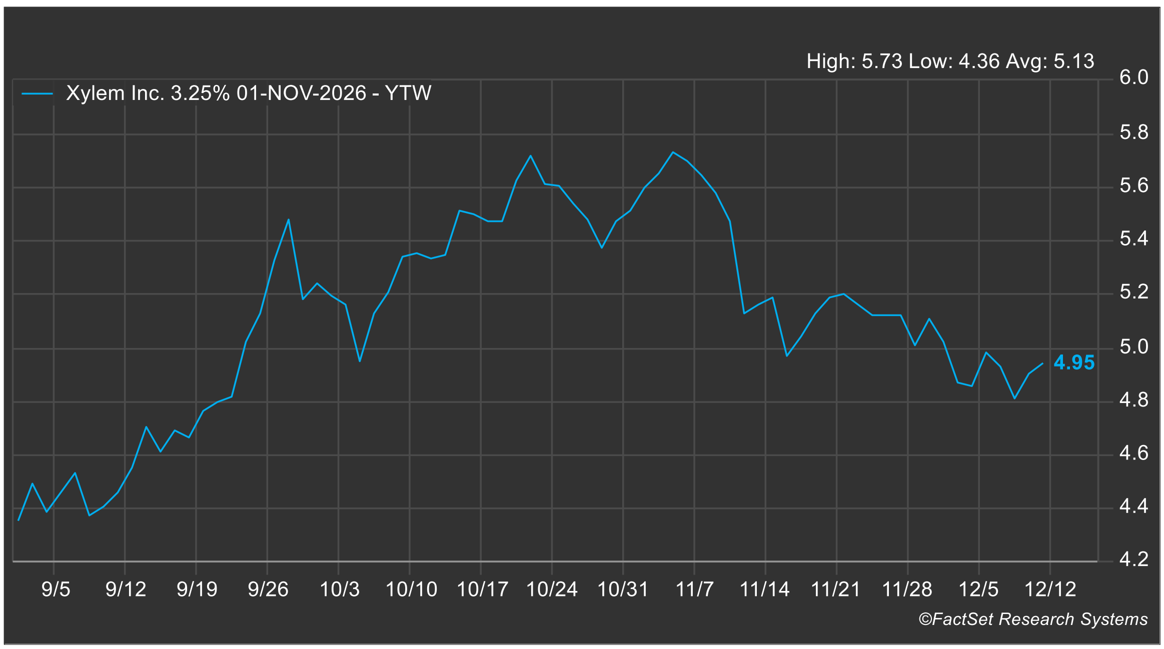


We weigh Waste Management as underweight. Waste Management has struggled to offer consistent returns, which ranks it as a not successful position. Going forward WM offers recession protection as the performance is not generated by consumer confidence and most of the revenue is generated in the United States making currency exchange not a risk.

Xylem Inc. (XYL)

Executive Summary as of 12/11/2022

Xylem is a global leader in water technology and offers a wide range of solutions, including the transport, treatment, testing, and efficient use of water for customers in the utility, industrial, commercial, and residential sectors. Xylem was spun off from ITT in 2011.



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Xylem Inc.	98419MAJ9	Industrials	Bond	8/31/2022	Buy	Y	3.25%	$103.60	$94.22	-8.27%	-1.77%	-6.50%	No

Xylem 2026 Inc.’s bond (98419MAJ9) is a BBB investment grade corporate bond that the analyst recommended at the time to decrease the portfolio’s weighted average duration while increasing its yield-to-maturity. It was also meant to increase exposure to the water industry while decreasing the cash within the portfolio. We believe Xylem is poised to benefit from long-term trends, including global population growth, water scarcity in developing countries, and the need to replace aging water infrastructure in developed countries. Furthermore, we think the company will continue to capitalize on cross-selling opportunities, as Xylem has traditionally held a strong position in the wastewater and outdoor water sectors, while Sensus (acquired in 2016) has established a strong presence on the clean water side. In addition, we believe the firm has room for further margin expansion. Management is implementing multiple initiatives, including business simplification, global procurement, and lean initiatives. The total position return was -8.27%, as the bond was impacted by unfavorable interest rate hikes in 2022. The bond was purchased at a premium ($103.60), and the Industrials team would place an underweight rating on it.

Sector Outlook

Industries in This Sector

Industry	Last % Change 05:18 PM ET 12/09/2022	YTD	1 - Year	3 - Year	5 - Year
		% CHANGE 12/09/2022			
Industrials	-0.81%	-6.62%	-5.87%	+22.68%	+33.11%
Aerospace & Defense	-0.77%	+13.02%	+13.87%	+2.02%	+22.30%
Air Freight & Logistics	-0.71%	-20.93%	-16.90%	+38.40%	+20.12%
Airlines	+0.80%	-12.44%	-14.38%	-40.86%	-44.06%
Building Products	-1.13%	-21.26%	-21.20%	+41.59%	+54.36%
Commercial Services & Supplies	-0.10%	-2.31%	-1.08%	+55.34%	+110.87%
Construction & Engineering	-1.44%	+29.20%	+27.64%	+181.73%	+173.03%
Electrical Equipment	-0.37%	-15.27%	-14.54%	+31.17%	+49.98%
Industrial Conglomerates	-1.21%	-10.62%	-10.28%	+1.49%	-13.12%
Machinery	-1.24%	-0.86%	-1.04%	+45.65%	+55.63%
Marine	--	--	--	--	--
Professional Services	-0.88%	-14.62%	-15.09%	+40.11%	+73.43%
Road & Rail	-0.40%	-16.62%	-14.85%	+34.69%	+76.34%
Trading Companies & Distributors	-1.21%	-3.80%	-4.44%	+74.68%	+116.86%
Transportation Infrastructure	--	--	--	--	--
S&P 500 ® Index	-0.73%	-17.45%	-16.31%	+25.06%	+48.38%

Companies in the industrial sector are those whose primary lines of business are one of the following: The manufacture and distribution of capital goods, including aerospace & defense, construction, engineering & building products, electrical equipment, and industrial machinery. The provision of goods and services for the business world, such as printing, employment, office, and environmental services. The provision of transportation services, including airlines, couriers, marine, road & rail and transportation infrastructure.

Although the sector overall is down in the past year (-5.87%) and YTD (-6.62%), it is still performing better than the benchmark returns of -16.31% and -17.45% respectively.

Overall, Industrials tend to outperform in the early rebounds of the economic cycle in comparison with defensive sectors and underperform in a recessionary environment. Considering that slightest possibility of a potential recession (even if not sever) given our house view, we would be cautious to maintain overweight positions in the sector overall.

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			–
Real Estate	++	–	+	– –
Consumer Discretionary	++		– –	
Information Technology	+	+	–	– –
Industrials	++			– –
Materials	+	– –		–
Consumer Staples	– –	–	+	++
Health Care	– –			++
Energy	– –		++	– –
Communication Services		+		–
Utilities	– –	–	+	++
	Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.	Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.	Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.	Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.