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Subject: FW: Portfolio Changes

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Attachments: Buy_and_Sell_recommendations.pdf

Inline-Images: image003.jpg

Jeffrey

As a follow up to our meeting:

- Keep the \$72MM in fixed income which I will manage as I have done up until now (focus remains on shorter dated HY and Pfds targeting 5-8% type yields)
- My preference is to liquidate all my remaining equity positions and move \$9MM into an Interactive Brokers account for trading. If my equity report card is going to be on the \$9MM trading account then that should be the focus. As instructed I will focus my equity trading on 3 positions using \$3MM of capital per name at any given time including the use of options if appropriate.

However if we were to keep some positions I would:

◦ **HOLD**

- BABA – cloud business in China; Ant Financial payments business; Chinese consumer exposure
- GOOG – GDPR a big boost to GOOG; cloud business growing; mobile search revenue opportunity remains
- AMZN – AWS, search business underappreciated, core business remains healthy
- MLPs – yielding 8%. US economy remains strong supporting volume growth;
- KRE (regional bank ETF) - deregulation; potential for higher dividend payout ratios; M&A; funding of small biz capex given 100% tax write off
- Tencent – remains global #1 in eGaming, huge monetization potential with WeChat and QQ, 20% ownership of Didi. EM headwinds could persist short term.
- Ubisoft – keep half. Stock has had a great run; two AAA titles being released; huge opportunity in China following the Tencent partnership
- AVGO – exposure to data center growth to offset wireless weakness; noise around QCOM takeover fading
- Allergan – drug pricing pressures priced in. Sentiment still very negative in the space. Potential asset sales would help unlock some value.
- MSFT and Equinix – both names to capture data center/cloud growth. SAAS and Azure to lead to further MSFT re-rating.

These positions total \$19.9MM (current value)

- We have 4 structured notes which I would hold given the deep buffers we have:
 - \$2.5MM linked to Eurotox 50; matures in March 2019 with a 26.5% buffer. Index down 2.5%
 - \$3MM linked to Eurostoxx Banks; matures Apr 2019 with a 28% buffer. Index down 16%
 - \$3MM linked to Japan Banks; matures Feb 2019 with a 25% buffer. Index down 15%
 - \$3MM linked to Merrill Lynch Index (sells deep out of the money SPX put spreads and buys VIX calls). Matures Apr 2019. Delta 1. Up 1%.

These total \$11.5MM notional or \$10.5MM current value

o **Sell:**

- Nintendo – price action in the stock not reflecting the success of Switch sales; slow to get into the China market; market worried it will miss the trend towards games with battle royale format
- iShares South Korea ETF – shrinking Fed balance sheet likely keeps EM under pressure. Samsung is the 3rd largest holding in EEM but represents 20% of the Korean ETF. Does not offer the same growth prospects as Tencent.
- CD Projekt – I sold half yesterday. Stock has had a great run.
- XLF (Financials ETF) – more upside in regional banks
- GS – Market not rewarding improved FICC business. Again I think the market will give a higher multiple to regional banks as deregulations help ROEs.
- JD.Com – this is the Amazon of China. Stock has been volatile and they have built an amazing distribution network. Margin pressure keeping a lid on the upside.
- General Dynamics, Lockheed Martin, Northrop and Raytheon – I think these could be dead money for the time being. While I still think global defense spending will continue to increase, the time frame is stretching out and multiples will likely contract in the near term to reflect that. Longer term I still very much believe in the stocks.
- Naspers – switch back into Tencent
- Clean up smaller positions: BUD, BAC
- Switch GE into a risk reversal – Sell Dec 2018 \$10 Puts and buy \$16 calls. At \$10 that is a \$87Bln market cap which is about equal to conservative estimates of their Aviation business.

These total \$19.7MM current value

- Remaining legacy positions to discuss: Biogen, Centene, FMI, Sangamo, Sequential Brands, BMY, Disney.

Paul

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