KIRWAN
CAPITAL

13000 CR 348
St. Joseph, MO 64505
Missouri 816-385-5266
Nebraska 402-212-0519
Toll Free 888-666-8117
pk@kirwancapital.com
www.kirwancapital.com

April 18, 2018

After well over a year of staid, near continually rising prices, stocks broke their winning streak in the first quarter of 2018 as volatility returned with vigor. Worries about inflation, the prospect of new regulations on tech firms, and most importantly, fears of an escalating trade war with China took hold and the market swung to a loss.

Our Kirwan Capital Strategy portfolios lost 1.33% for the quarter** versus our benchmark*, which finished the quarter with a loss of 1% on the nose. Our average compound annual return after fees since Jan 1, 2013 was 13.80%, which would have turned a $10,000 investment into $19,705 in 5 1/4 years.

As the year began with the market continuing its steady ascent to record highs on a seemingly daily basis, I began to look for ways to hedge an increasingly probable market decline without giving away the upside that long term investment in quality companies offers. I ultimately decided in mid January to invest a portion of our money in a merger arbitrage situation. Our strategy involves the purchase of a company that is the target of a buyout with the intent to capture the difference between the current price and the ultimate price at which the buyout occurs. In the case in point, Bayer had agreed to buy Monsanto for $128/share, and due to doubts regarding the regulatory palatability of the deal and the sheer number of regulators around the globe required for approval, the shares were trading between 118 and 120. The potential return for buying Monsanto was thus around 7.5%, which may not look very appealing, but both companies were confident that the deal would close during the second quarter of 2018. If realized, this would actually result in a return of more than 15% annualized, in light of our holding period of less than six months. So confident, in fact, was Bayer, that they agreed to pay Monsanto a $2 Billion breakup fee if the deal does not close during this time frame. Armed with the knowledge that our worst case scenario would result in owning the premier seed franchise in the world plus $2 Billion, I put some money to work and bought Monsanto. While this transaction did not help our first quarter returns due to renewed concerns regarding U.S. regulators as the period came to a close, the U.S. has since blessed the deal, and the stock is trading at nearly $125 as of this writing. We have since invested in a second merger arbitrage situation, buying Aetna in late February, after CVS announced their intent to purchase the firm. While we recently sold our shares in CVS for an average price in the mid $70's, this deal involves both cash and shares, and if it goes through as anticipated, we will end up getting shares of CVS at a cost somewhere in the mid $40's when taking cash received into account. For better or worse, and a strong factor in my decision to embark on this strategy with a small portion of our money, the returns from our merger arbitrage activity should have little or no correlation to the equity market returns generated by the remainder of our portfolios, since they are based on the specifics and closing of each deal rather than market perceptions of the economy, geopolitics, earnings, etc.

Our equity market operations during the quarter involved the purchase of McDonalds Corp. and more Proctor and Gamble, as consumer stocks experienced much weakness early in the period. In late March, we took our profit on Nike and took a small portion of our Amazon profits off the table, on the heels of an amazing multi-year run that had grown our position in many accounts to well over 10%. We sold Anheuser-Busch InBev, Disney, and Hershey in some accounts to generate cash to purchase shares of beaten down consumer companies General Mills and Kraft Heinz. We also purchased Microsoft, as I think the company has the opportunity to win an increasing amount of enterprise cloud business, and the market seems to be betting that Amazon will own the entire industry in the future. While I wouldn't bet

KIRWAN
CAPITAL

13000 CR 348
St. Joseph, MO 64505
Missouri 816-385-5266
Nebraska 402-212-0519
Toll Free 888-666-8117
pk@kirwancapital.com
www.kirwancapital.com

against Jeff Bezos, I think Microsoft will continue to win its share as well. We also bought more shares of energy transmission and midstream company Enbridge, which had fallen to lows not seen for over two years, and pays a significant dividend, which should help mitigate any volatility the market may exhibit going forward.

For those of you who like to keep score, I would like to gloat just a little by noting that my warning in the previous newsletter regarding crypto currencies was quite prescient, as Bitcoin prices subsequently fell over 50% by the end of March.

Thanks again for your trust, I hope you enjoy the upcoming summer, and I wish you all the best.

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.

** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. In addition, transactions noted may or may not have been made for all accounts.