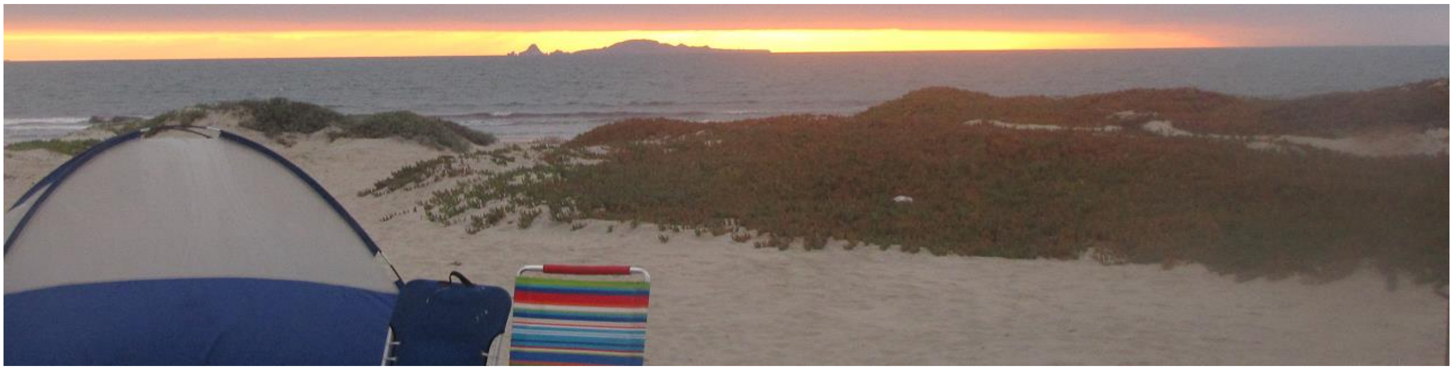
JUNE 2019

BROXTON
CAPITAL ADVISORS



YTD as of 5/31/2019

BROXTON	+4.28%

MARKETS

DOW JONES	+6.44%
S&P 500	+10.14%
NASDAQ 100	+12.76%
REIT INDEX	+16.52%
Small Cap	+8.93%

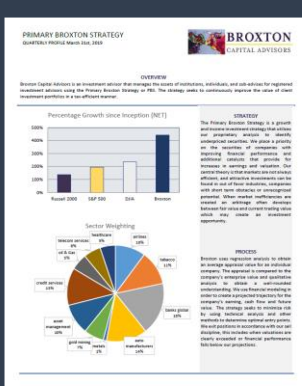
BOND YIELDS

10 YR TREAS	2.14%
YTD CHANGE	-.54%
30 YR TREAS	2.58%
YTD CHANGE	-.43%

SINCE INCEPTION
THROUGH DEC 31, 2018

BROXTON	408.77%
S&P 500	158.73%
DOW JONES	199.13%

BROXTON PERFORMANCE


PRIMARY BROXTON STRATEGY

BROXTON
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OVERVIEW

STRATEGY

PROCESS

Broxton Portfolio

The Broxton portfolio declined about 5% in May before rebounding in June. The market indexes dropped on renewed trade tension fears. One old Wall Street adage says to "sell in May and go away." Historically the market has performed better in the November to April period and there are investment strategies that are based on this seasonal pattern. This year seemed to initially exemplify this trend as indexes fell as much as 10% from May 1st through early June. In early May we found that trade talks with China had seemingly faltered with the President stating that China had "broke the deal" and then threatening new tariffs on trade from Mexico. The possible trade riff with Mexico was averted leading to the strong bounce in June. The month of May also saw a sharp drop in the price of oil, which declined 23% from high to low. There were several unexpected increases in oil and gas inventories throughout the month as well as concern from the tariffs on the economy. However, gold remained steady throughout May and then surged to new highs in June. A few updates on some of the positions in the Broxton portfolio:

Citibank (C): Citibank picked up an upgrade from Goldman Sachs stating: "Citi has the lowest sensitivity to both short-end rate movements and to the long end of the curve in Goldman's coverage." The bank also cited Citi's presence outside of the U.S. to be a benefit if the trade wars were to heat up.

American Airlines (AAL): Although AAL fell in May the shares were bolstered when CEO Doug Parker affirmed guidance with possible further upside due to lower fuel prices, improved ticket pricing and reaffirmed increased cash flows in 2020 and 2021. "We have invested never seen before levels of capital in this airline from 2014 to 2018, $5.4 billion each year on average. The good news is that is coming to an end and the benefits of all that investment is still coming on." CEO Parker projected EPS growth for the year of approximately 10% and earnings per share somewhere between $4 and $6.

Viacom (VIAB): We recently wrote a report on the looming Viacom CBS merger. Both companies have seen their shares slide in recent years as investors have focused on companies that are getting more than 50% of their revenues from internet subscription or streaming. We noted that if the pair combine, they could see total savings of $400-600 million per year and should devote $1-1.5 billion per year in additional spending on their video on demand products. Viacom may have a huge hit on their hands with the free (ad supported) video on demand service Pluto. Pluto makes about $1.60 per month per viewer through ads. The service increased subscribers by 31% in the 1st quarter to 16 million. We believe that, as the most extensive free internet viewing offering, Pluto could eventually surpass 200 million viewers.

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How are the Retail Malls Doing?

Abandoned Mall

This picture may be a little bit of an exaggeration because many of the malls are doing fine. But…….we noticed something pretty bad in the 1st quarter numbers: A number of stores are struggling. JC Penney may be on its last legs and most likely should file for bankruptcy sooner rather than later in order to save as much cash as possible. Ascena retail group (Ann Taylor, LOFT, Dressbarn, Catherines, amongst other brands) may not be far behind. So possibly the worst 1st quarter in quite a while.

Mall owners are hustling in order to bring in new types of tenants. Washington Prime Group (WPG) reported: Of the 1.4M SF, 52% of new leasing volume was attributable to lifestyle tenancy which includes food, beverage, entertainment, home furnishings, fitness and professional services; and Tier One and Open Air occupancy remained strong at 93.3%. The Class A malls are holding steady with leasing aimed at tenants who are not the traditional clothing retailers. Many of the malls are going through a difficult transition that may accelerate as we see further failures in the retail space.

Is it time to invest? Not yet! Mall owners WPG and CB and associates are hitting all time lows with CBL falling below $1. Simon Property Group (SPG) a leader in high end malls also hit a 52 week low in June. Malls that can add hotels and office space will outperform their peers and the transition to lifestyle tenancy will continue.

Good Mall (Sawgrass Mills in Orlando)

Any hope for the retailers? Yes, some are doing well. In general, the retailers need to deleverage their operating costs by shifting away from physical real estate and towards internet sales. The secret sauce? Having proprietary product which can't be sold at a huge discount to its retail price. Abercrombie and Fitch is doing this quite well with 100% proprietary products, average lease life of 18 months and 35% of sales coming from the internet. Williams Sonoma is also demonstrating how to keep your margins high with proprietary products. We will keep you updated on the timing of opportunities, but things have not bottomed out at this time. Washington Prime (WPG) is currently yielding 28.7% and it looks like the dividend is not in immediate danger, so there are some tempting situations!

Broxton Capital Advisors

Broxton Capital is an investment manager located in San Juan and employs The Primary Broxton Strategy or "PBS." The Primary Broxton Strategy or "PBS" for managed accounts. The PBS is a bottom up, fundamental strategy that seeks higher total returns with lower risk. The focus is on low risk investments with attractive return (LRAR Securities) with an average holding period of 18 to 36 months. The strategy invests in high yield, fixed income, and equities but does not have any allocation mandates.

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