



Model Portfolio Monthly Update: March 31, 2016

There are limitations inherent in our theoretical model results, particularly with the fact that such results do not represent actual trading and they may not reflect the impact material economic and market factors might have had on our decision making if we were actually managing client money. Please see additional disclaimers and disclosures at the back of this report.

We highlight stocks that demonstrate solid growth at a reasonable price (GARP). Stocks selected for our model portfolio strategies all rank highly for the following metrics, with an emphasis on proxies for cash flow growth and ROIC:

- Relative Value
- Operating Momentum
- Analyst Revision Momentum
- Fundamental Quality

Pages 2-6 contain brief commentary and highlights of a few stocks that seem particularly attractive.

Page 7 contains rebalancing actions for our long-only model portfolio.

Page 8 contains rebalancing actions for our short-only model portfolio.

Target and stop prices, as well as updated return data, to be provided in our daily reports that will follow.

Notes:

Readers that would like to follow our daily price target changes can follow us on our Seeking Alpha [instablog](#) or on [Tumblr](#).

Commentary

Low-Quality Stock Rally in March Negatively Impacts Long/Short Strategies

By the close of the third trading day of the month it was clear that a rally in low-quality stocks had high momentum and had a high chance of continue for several weeks. We noted as much in our [March 6 note](#) and a follow-up on [March 16](#). The drastic outperformance of low-quality stocks, which our theoretical portfolio models assume short sale positions in, had a negative impact on our long/short theoretical strategies.

Both the theoretical **Core Long Model** and **Opportunistic Long Model** increased +6.31% in March versus the +6.45% return in the S&P 500.

(Both portfolios use the same basket of stocks but the Opportunistic model moves to 70% and 100% cash allocations during periods of high volatility or when portfolio return targets are met.)

The theoretical **Core Short Model** posted a loss of -11.66% and the theoretical Opportunistic Short Model posted a loss of -6.70%. The Opportunistic Short Model assumed a 100% cash position just prior to the close on March 3 while the Core Short Model continued to assume short sale positions in stocks.

The theoretical **Core Long/Short Model** declined by -5.35%, with the +11.66% surge in low-quality stocks that were shorted negatively impacting the positive +6.31% return of high-quality stocks that were bought ($6.31\% - 11.66\% = -5.35\%$).

The **Opportunistic Long/Short Model** declined by -0.39%, after it locked in a short sale loss of 6.70% at the close of March 3 ($6.31\% - 6.70\%$).

The best model portfolio stocks in March 2016

The best performing stock in the long model was **Boardwalk Pipeline Partners, LP (BWP)** up +18.68% and the worst performing stock was **United Therapeutics Group (UTHR)** down -8.62%. In the short model, the best performing stock was **LinkedIn Corporation (LNKD)** for an assumed +2.42% short sale gain and the worst was **Apache Corp. (APA)** which assumed a loss of 33.28% a day after hitting a stop loss on March 4.

Last month our favorite long idea was **Lowe's Companies, Inc. (LOW)**, which finished the month up 12.17%. Our favorite short idea for March was **Autodesk, Inc. (ADSK)**, which was up 12.70% for the equivalent short sale loss.

Looking ahead to April 2016

As of the March 31, 2016 close, 6 stocks have left the long-only model, 8 have been added, and 15 were assumed to have been rebalanced. A preliminary rebalancing model was provided close to 2pm on March 31. This final version is unchanged except for the addition of one stock.

Our favorite new long idea is Ultrapar Participacoes S.A.

We would like to explore the Brazilian-based American Depositary Receipt UGP in more detail because it is one of the few Energy names that seems likely to generate a steady improvement in ROIC over the next few quarters, driven largely in part from better working capital management. This implies that management has a good handle on the business.

Ranking Data as of March 31, 2016

Ultrapar Participações S.A.
NYSE:UGP

Energy
Oil and Gas Storage and Transportation

Ascendere Ranking	Price 03/31/16	19.28	Cash	(885)	EV/LTM EBITDA	10.6	
	Shares	543	Debt	2,248	Price/Book	5.2	
	Market Cap	10,471	Other	7			
5 = Best	Rank		Enterprise Value	11,841			
Relative Value	3						
Operating Momentum	4	CY1 Consensus EPS Est. \$	0.73	CY1 PE	26.4	Total Capital \$	4,261
Analyst Revisions Mom	5	CY2 Consensus EPS Est. \$	0.94	CY2 PE	20.5	Debt/Capital	32%
Fundamental Quality	5	Latest Annualized Dividend \$	0.44	Div Yield	2.1%	Debt/Enterprise Value	19%

Source: XBRL Analyst data and estimates, and Ascendere Associates LLC data and estimates.

	Estimate	Estimate	Estimate	Estimate					
NYSE:UGP	LTM+4Q	LTM+3Q	LTM+2Q	LTM+1Q	Last LTM	LTM-1	LTM-2	LTM-3	LTM-4
NOPLAT	871	875	816	807	813	787	870	896	940
Economic Charge	374	378	380	391	400	402	492	453	498
Economic Profit	497	497	435	417	413	385	379	443	442
Y/Y change	0.1%	14.1%	4.5%	0.9%	7.2%	1.8%	-14.5%	0.2%	25.7%
NOPLAT	871	875	816	807	813	787	870	896	940
Operating Capital	3,823	3,862	3,886	3,990	4,089	4,275	5,088	4,902	5,335
ROIC (NOPLAT / Operating Capital)	22.8%	22.6%	21.0%	20.2%	19.9%	18.4%	17.1%	18.3%	17.6%
NOPLAT	871	875	816	807	813	787	870	896	940
5 Qtr Average Operating Capital	3,890	3,957	4,060	4,360	4,738	5,076	5,474	5,678	5,717
ROIC (NOPLAT / Operating Capital)	22.4%	22.1%	20.1%	18.5%	17.2%	15.5%	15.9%	15.8%	16.4%

Source: Ascendere Associates assumptions, estimates and data, XBRL Analyst data and consensus estimates.

Our favorite short idea EnLink Midstream Partners, LP

EnLink Midstream Partners, LP (ENLK) reported a bad December quarter and consensus estimates imply that a recovery to positive ROIC within a year is unlikely. If oil prices keep rising shorts will likely be burned. If oil declines or flattens this idea may work out well, so it deserves further study.

Ranking Data as of March 31, 2016

EnLink Midstream Partners, LP
NYSE:ENLK

Energy
Oil and Gas Refining and Marketing

Ascendere Ranking	Price 03/31/16	12.07	Cash	(6)	EV/LTM EBITDA	11.8	
	Shares	369	Debt	3,090	Price/Book	1.0	
	Market Cap	4,452	Other	236			
			Enterprise Value	7,773			
5 = Best	Rank						
Relative Value	1						
Operating Momentum	2	CY1 Consensus EPS Est.	\$ 0.25	CY1 PE	47.5	Total Capital	\$ 7,532
Analyst Revisions Mom	1	CY2 Consensus EPS Est.	\$ 0.45	CY2 PE	27.1	Debt/Capital	41%
Fundamental Quality	1	Latest Annualized Dividend	\$ 1.56	Div Yield	12.8%	Debt/Enterprise Value	40%

Source: XBRL Analyst data and estimates, and Ascendere Associates LLC data and estimates.

	Estimate	Estimate	Estimate	Estimate					
NYSE:ENLK	LTM+4Q	LTM+3Q	LTM +2Q	LTM +1Q	Last LTM	LTM-1	LTM-2	LTM -3	LTM -4
NOPLAT	(604)	(575)	(384)	(230)	(1,218)	(423)	393	398	411
Economic Charge	638	638	638	635	632	690	817	786	780
Economic Profit	(1,243)	(1,213)	(1,022)	(865)	(1,850)	(1,113)	(424)	(388)	(369)
Y/Y change	2.5%	18.7%	18.1%	-53.2%	66.2%	162.3%	9.4%	5.1%	-6.6%
NOPLAT	(604)	(575)	(384)	(230)	(1,218)	(423)	393	398	411
Operating Capital	7,820	7,816	7,814	7,777	7,747	8,284	9,143	8,898	8,304
ROIC (NOPLAT / Operating Capital)	-7.7%	-7.4%	-4.9%	-3.0%	-15.7%	-5.1%	4.3%	4.5%	5.0%
NOPLAT	(604)	(575)	(384)	(230)	(1,218)	(423)	393	398	411
5 Qtr Average Operating Capital	7,807	7,789	7,906	8,238	8,475	8,437	8,260	7,878	6,669
ROIC (NOPLAT / Operating Capital)	-7.7%	-7.4%	-4.9%	-2.8%	-14.4%	-5.0%	4.8%	5.1%	6.2%

Source: Ascendere Associates assumptions, estimates and data, XBRLAnalyst data and consensus estimates.

Long running advice regarding the use of our model portfolio report

Wayne Gretzky said it best – “skate to where the puck is going to be, not where it has been.” Quantitative screens like the one in this report show where a stock has been and assume the trajectory is fixed. Of course, this is not always the case. The best investors will use this model portfolio as guidance, and not the end all. At the same time, the model does well enough on its own, often beating the indices with ease (though not this past month). With a little effort, we hope that active fundamental portfolio managers will do even better.

Long Model Portfolio -- Rebalancing Actions

3/31/2016 Rebalancing					
Core and Opportunistic Long Portfolio:					
23 stocks in the model portfolio = 4.35% weight per position					
Close Position		Hold/Rebalance		Open Position	
Cracker Barrel Old Country Store	CBRL	American Eagle Outfitters, Inc.	AEO	O'Reilly Automotive Inc.	ORLY
Lowe's Companies, Inc.	LOW	Skechers U.S.A., Inc.	SKX	Sprouts Farmers Market, Inc.	SFM
Boardwalk Pipeline Partners, LP	BWP	PrivateBancorp, Inc.	PVTB	Ultrapar Participações S.A.	UGP
DENTSPLY SIRONA Inc.	XRAY	Signature Bank	SBNY	Molina Healthcare, Inc.	MOH
JetBlue Airways Corporation	JBLU	First Citizens Bancshares Inc.	FCNC.A	Hawaiian Holdings Inc.	HA
Lam Research Corporation	LRCX	United Therapeutics Corporatio	UTHR	Leidos Holdings, Inc.	LDOS
		VCA Inc.	WOOF	DST Systems Inc.	DST
		Amgen Inc.	AMGN	National Grid plc	NGG
		Deluxe Corp.	DLX		
		Canadian Pacific Railway Limit	CP		
		Manhattan Associates, Inc.	MANH		
		Linear Technology Corporation	LLTC		
		NetEase, Inc.	NTES		
		Cisco Systems, Inc.	CSCO		
		NVIDIA Corporation	NVDA		

Source: Ascendere Associates LLC

The long model portfolio has been updated from the March 31, 2016 2pm distribution with the addition of National Grid plc (NGG).

Short Model Portfolio -- Rebalancing Actions

When the market anticipates an improving economy from low price levels, low-quality stocks will at times out-perform high-quality stocks as the expected improvements in fundamentals are discounted from a relatively more depressed price level.

3/31/2016 Rebalancing					
Core and Opportunistic Short Portfolio:					
28 stocks in the model portfolio = 3.57% weight per position					
Close Position		Hold/Rebalance		Open Short Sale	
Melco Crown Entertainment Limited	MPEL	Tesla Motors, Inc.	TSLA	Qunar Cayman Islands Limited	QUNR
Targa Resources Corp.	TRGP	TripAdvisor Inc.	TRIP	EnLink Midstream Partners, LP	ENLK
Vermilion Energy Inc.	VET	Concho Resources, Inc.	CXO	Marathon Oil Corporation	MRO
RPC Inc.	RES	Apache Corp.	APA	RSP Permian, Inc.	RSPP
Ionis Pharmaceuticals, Inc.	IONS	National Oilwell Varco, Inc.	NOV	MPLX LP	MPLX
Yandex N.V.	YNDX	Devon Energy Corporation	DVN	Parsley Energy, Inc.	PE
		Royal Dutch Shell plc	RDS.B	Kennedy-Wilson Holdings, Inc.	KW
		Noble Energy, Inc.	NBL	Middleby Corp.	MIDD
		Hess Corporation	HES	Zebra Technologies Corporation	ZBRA
		Legg Mason Inc.	LM		
		Sensata Technologies Holding	ST		
		Qorvo, Inc.	QRVO		
		NCR Corporation	NCR		
		LinkedIn Corporation	LNKD		
		Autodesk, Inc.	ADSK		
		Yahoo! Inc.	YHOO		
		Tableau Software, Inc.	DATA		
		Albemarle Corporation	ALB		
		Methanex Corporation	MEOH		

Source: Ascendere Associates LLC

The short model portfolio has been updated from the March 31, 2016 2pm distribution with the removal of Deutsche Bank (DB) and the retention of Legg Mason (LM).

Return Data

Core & Opportunistic Long Model					MTD			
2/29/2016 to 3/31/2016								
Sector	Company	Ticker	2/29/2016	3/31/2016	Performance	Target/ Stop Date	Date+1 Sell Price	Return
Energy	Boardwalk Pipeline Partners, LP	BWP	12.42	14.74	18.68%			
Information Technology	NVIDIA Corporation	NVDA	31.36	35.63	13.62%			
Health Care	VCA Antech Inc.	WOOF	51.03	57.69	13.05%			
Information Technology	LAM Research Corp.	LRCX	73.30	82.60	12.69%			
Financials	Privatebancorp Inc.	PVTB	34.36	38.60	12.34%			
Consumer Discretionary	Lowe's Companies Inc.	LOW	67.53	75.75	12.17%			
Industrials	Canadian Pacific Railway Limited	CP	121.19	132.69	9.49%			
Consumer Discretionary	American Eagle Outfitters Inc.	AEO	15.26	16.67	9.24%			
Industrials	Deluxe Corp.	DLX	57.41	62.49	8.85%			
Information Technology	Cisco Systems, Inc.	CSCO	26.18	28.47	8.75%			
Financials	First Citizens Bancshares Inc.	FCNC.A	234.13	251.07	7.24%			
Information Technology	Netease.com Inc.	NTES	134.61	143.58	6.66%			
Health Care	Amgen Inc.	AMGN	142.28	149.93	5.38%			
Financials	Signature Bank	SBNY	129.55	136.12	5.07%			
Consumer Discretionary	Cracker Barrel Old Country Store, Inc	CBRL	148.05	152.67	3.12%			
Information Technology	Manhattan Associates, Inc.	MANH	55.26	56.87	2.91%			
Information Technology	Linear Technology Corp.	LLTC	43.62	44.56	2.15%			
Health Care	DENTSPLY SIRONA, Inc.	XRAY	60.96	61.63	1.10%			
Industrials	JetBlue Airways Corporation	JBLU	22.00	21.12	-4.00%			
Consumer Discretionary	Skechers USA Inc.	SKX	32.92	30.45	-7.50%			
Health Care	United Therapeutics Corp.	UTHR	121.94	111.43	-8.62%			

Ascendere Associates LLC

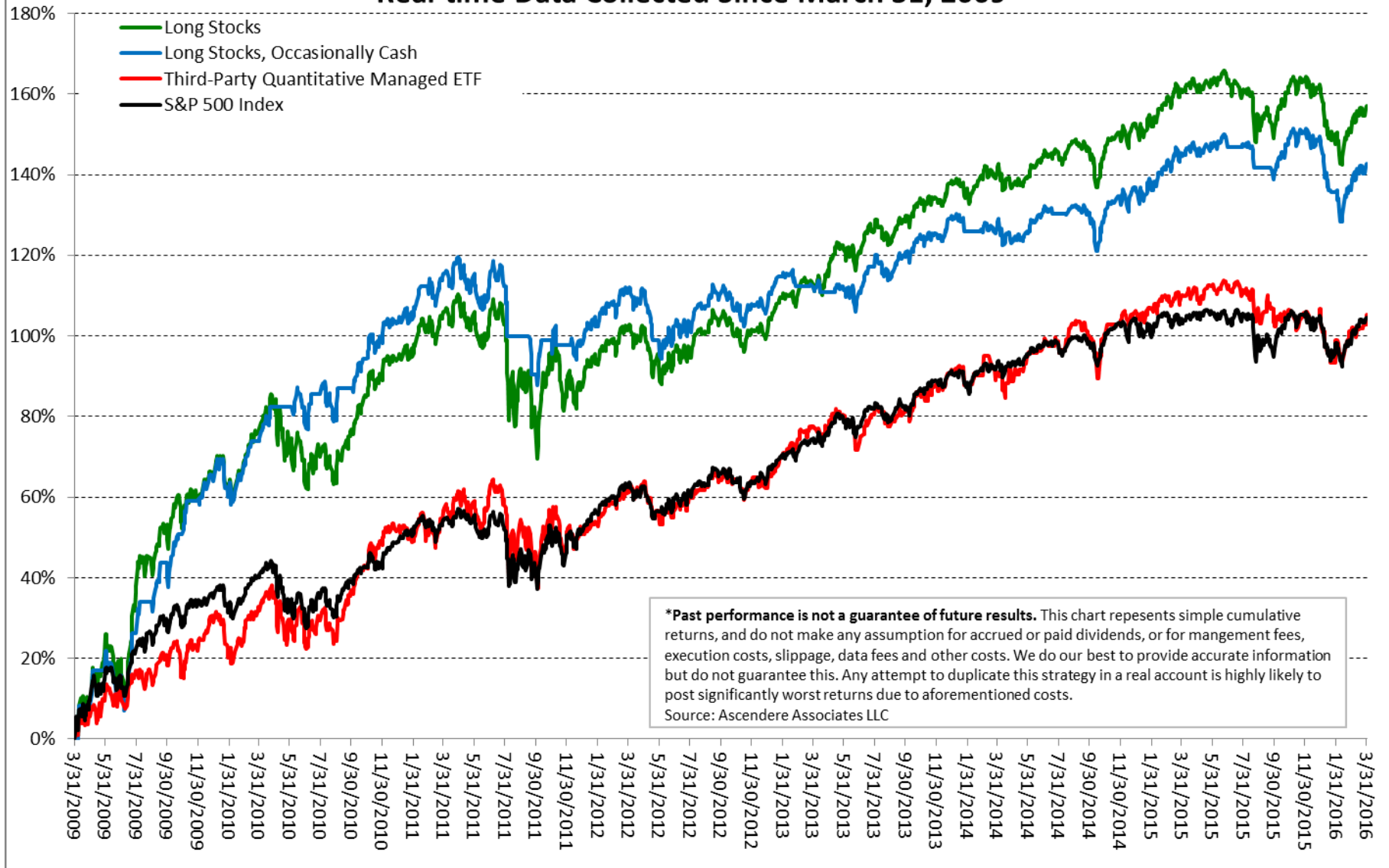
Core & Opportunistic Short Model					MTD				
2/29/2016 to 3/31/2016									
Sector	Company	Ticker	2/29/2016	3/31/2016	Performance	Target/ Stop Date	Date+1 Sell Price	Return	
Information Technology	LinkedIn Corporation	LNKD	117.19	114.35	-2.42%				
Information Technology	Tableau Software, Inc.	DATA	45.65	45.87	0.48%				
Materials	Methanex Corp.	MEOH	31.67	32.12	1.42%				
Energy	RPC Inc.	RES	13.57	14.18	4.50%				
Consumer Discretionary	Melco Crown Entertainment Ltd.	MPEL	15.79	16.51	4.56%				
Energy	Cameco Corporation	CCJ	12.11	12.84	6.03%				
Consumer Discretionary	TripAdvisor LLC	TRIP	62.60	66.50	6.23%				
Energy	National Oilwell Varco, Incorporated	NOV	29.27	31.10	6.25%	3/7/2016	\$ 31.50	7.62%	
Energy	Noble Energy, Inc.	NBL	29.50	31.41	6.47%				
Energy	Vermilion Energy Inc.	VET	27.16	29.22	7.58%	3/17/2016	\$ 31.38	15.54%	
Energy	Royal Dutch Shell plc	RDS.B	45.71	49.19	7.61%				
Information Technology	Qorvo, Inc.	QRVO	45.08	50.41	11.82%				
Energy	Concho Resources, Inc.	CXO	90.24	101.04	11.97%				
Information Technology	Autodesk, Inc.	ADSK	51.74	58.31	12.70%				
Materials	Albemarle Corp.	ALB	56.22	63.93	13.71%	3/29/2016	\$ 63.99	13.82%	
Industrials	Sensata Technologies Holding NV	ST	34.11	38.84	13.87%	3/29/2016	\$ 38.91	14.07%	
Information Technology	Yahoo! Inc.	YHOO	31.79	36.81	15.79%	3/29/2016	\$ 36.56	15.00%	
Health Care	Ionis Pharmaceuticals, Inc.	IONS	34.56	40.50	17.19%				
Information Technology	Yandex N.V.	YNDX	12.92	15.32	18.58%	3/16/2016	\$ 15.41	19.27%	
Consumer Discretionary	Tesla Motors, Inc.	TSLA	191.93	229.77	19.72%	3/16/2016	\$ 226.38	17.95%	
Energy	Hess Corporation	HES	43.60	52.65	20.76%	3/17/2016	\$ 53.90	23.62%	
Financials	Legg Mason Inc.	LM	28.56	34.68	21.43%	3/4/2016	\$ 32.98	15.48%	
Energy	Apache Corp.	APA	38.28	48.81	27.51%	3/4/2016	\$ 51.02	33.28%	
Information Technology	NCR Corp.	NCR	23.36	29.93	28.13%	3/11/2016	\$ 26.63	14.00%	
Energy	Devon Energy Corporation	DVN	19.68	27.44	39.43%	3/14/2016	\$ 24.09	22.41%	

Ascendere Associates LLC

	Theoretical Model Portfolio* 03/31/16	MTD	YTD	Since 03/31/09	Sharpe
	Simple Returns (No Compounding)				
Stock Targets	Core Model				
	Long	6.31%	-3.33%	156.8%	0.96
	Short	11.66%	-10.78%	53.5%	0.37
	Core Long/Short	-5.35%	7.45%	103.3%	0.92
Stock Targets and Portfolio Targets	Opportunistic Model				
	Long	6.31%	-4.76%	142.5%	1.13
	Short	6.70%	-15.12%	-12.7%	(0.10)
	Opportunistic Long/Short	-0.39%	10.36%	155.1%	1.44
Stock Targets and Portfolio Targets	Opportunistic Model III				
	Long Stocks	6.31%	-4.76%	142.5%	1.13
	Long Inverse ETF ^SH	-5.69%	4.66%	-72.0%	(0.74)
	Opportunistic Long/Short III	0.62%	-0.10%	70.5%	0.76
	S&P 500 Index	6.45%	1.18%	104.41%	0.90

* Return figures are calculated using cumulative simple returns. This table represents returns of several theoretical portfolios that do not assume any costs. This table is not to be construed as advertising for any investment service. Real portfolios that attempt to exactly replicate these theoretical strategies will generate lower returns relative to these models due to slippage, transaction costs, tax expenses and other costs. There are limitations inherent in our theoretical results, particularly with the fact that such results do not represent actual trading and they may not reflect the impact material economic and market factors might have had on our decision making if we were actually managing client money. We do our best to provide accurate information, but do not guarantee this. Please see additional disclosures and disclaimers.

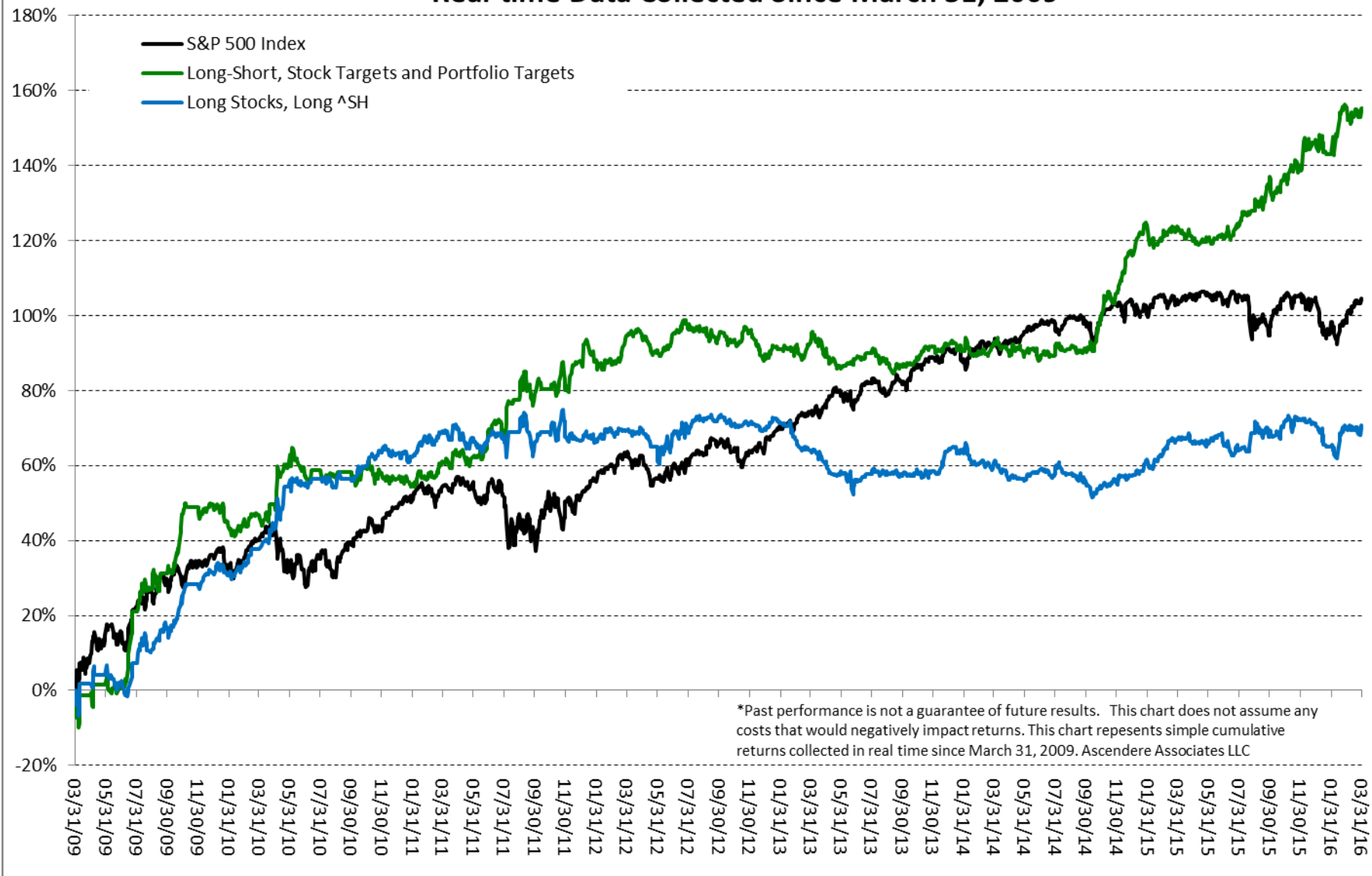
Simple Returns -- Long Theoretical Model Portfolios vs Actual Third-Party Quantitative ETF vs S&P 500 Total Return Index Real-time Data Collected Since March 31, 2009



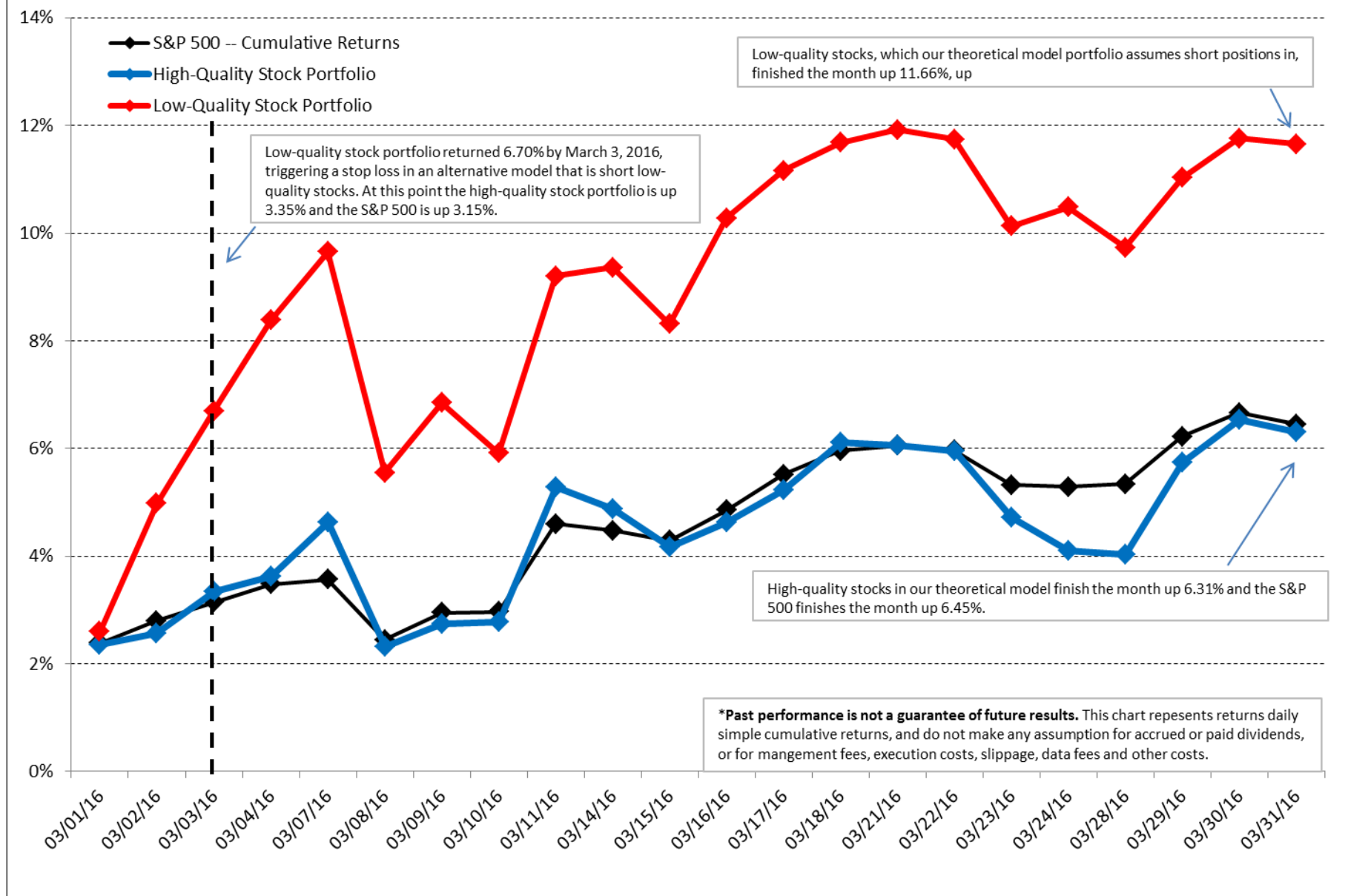
"Theoretical Dollar Neutral" Strategies

Simple Cumulative Returns

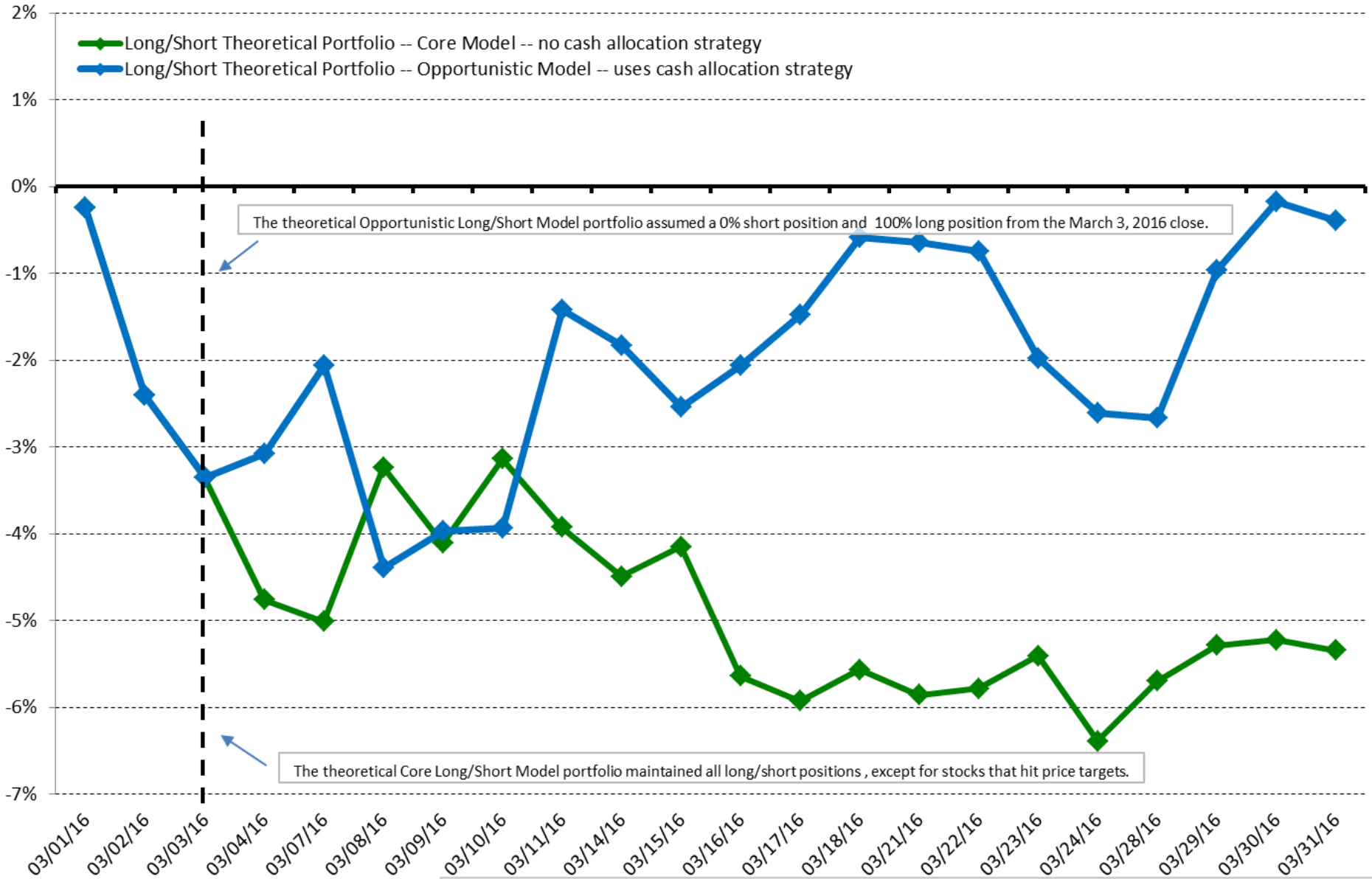
Real-time Data Collected Since March 31, 2009



Low-Quality Stock Rally -- March 2016



Theoretical Long/Short Model Portfolio Returns March 2016



***Past performance is not a guarantee of future results.** This chart represents returns daily simple cumulative returns, and do not make any assumption for accrued or paid dividends, or for mangement fees, execution costs, slippage, data fees and other costs.

	Core	Opportunistic	"Dollar Neutral" 1	"Dollar Neutral" 2	
Inception March 31, 2009	Long, Stock Targets	Long, Stock and Portfolio Targets	Long/Short, Stock Targets and Portfolio Targets	Long, Stock and Portfolio Targets / Long ^SH ETF	S&P 500
3/31/2016	Theoretical	Theoretical	Theoretical	Theoretical	
Simple Returns					
Today	-0.22%	-0.22%	-0.22%	-0.22%	-0.20%
MTD	6.31%	6.31%	-0.39%	0.62%	6.45%
YTD	-3.33%	-4.76%	10.36%	-0.10%	1.18%
Cumulative from 3/31/2009	156.76%	142.47%	155.15%	70.49%	104.41%
Absolute Risk					
Daily Average	0.09%	0.08%	0.09%	0.04%	0.06%
Daily Range	16.86%	15.84%	11.84%	12.00%	11.40%
Daily Standard Deviation	1.46%	1.13%	0.97%	0.82%	1.04%
Daily Return/Standard Deviation	6.10%	7.17%	9.12%	4.86%	5.70%
Average 90-Day T-bill	1.26%	1.26%	1.26%	1.26%	1.26%
Annualized Daily Returns	22.42%	20.38%	22.19%	10.08%	14.93%
Annualized Standard Deviation	23.2%	17.9%	15.3%	13.1%	16.5%
Sharpe Ratio	0.91	1.07	1.37	0.67	0.83
Percentage Down Days	45.3%	34.9%	42.5%	44.2%	44.9%
Average Daily Downside Value	-1.04%	-0.92%	-0.65%	-0.55%	-0.75%
Daily Downside Deviation	-1.09%	-0.92%	-0.63%	-0.58%	-0.78%
Daily VAR of 1000 at 95% Conf	-23	-18	-15	-13	-17
Benchmark Relative Risk					
Correlation	0.91	0.70	(0.04)	0.05	
R-Squared	0.82	0.49	0.00	0.00	
Daily Tracking Error	0.68%	0.85%	1.44%	1.29%	
Regression					
Beta	1.27	0.76	-0.03	0.04	
Daily Alpha	0.030%	0.022%	0.029%	-0.019%	
Jensen's Daily Alpha	0.038%	0.016%	-0.001%	-0.001%	
Trading Days	1762	1762	1762	1762	
*Returns calculated by the simple return method (not compounded).					
* Portfolio models are theoretical and assume no costs.					
* Data collected in real time since 3/31/2009					
Source: Ascendere Associates LLC					

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J. Stephen Castellano – founded Ascendere Associates LLC to provide innovative equity research and investment advisory services that blends fundamental and quantitative approaches.

In general, our approach is quite simple -- we believe that return on invested capital and long-term earnings growth are key to stock valuation. More specifically, we use powerful and unique financial models that combine publicly available data, consensus estimates and our own inputs to generate consistent and actionable stock recommendations.

Among the services that Ascendere provides are: 1) detailed custom equity research analysis; 2) valuation scenario analysis studies; 3) supply /demand studies; 4) long and short stock idea generation; 5) portfolio feedback; 6) detailed fundamental financial modeling services; and 7) additional analytical consulting services. Additional information is available at jstephencastellano.tumblr.com. Mr. Castellano is currently on the Board of Advisors to GovBrain, and is a consultant to two other financial technology startups.

Mr. Castellano has over 15 years of experience in equity research and related consulting work. At PaineWebber, Warburg Dillon Read and Credit Lyonnais Securities he developed fundamental equity valuation models and conducted in-depth research on the steel and telecom services industries. At Boston Private Value Investors, he developed quantitative models for stock idea generation and also provided general fundamental equity research coverage. Steve received a MBA from the F. W. Olin School of Business at Babson College (2005) and a BA from Oberlin College (1993).

Mr. Castellano's career history is highlighted below:

- Ascendere Associates, LLC (2009-Present)
- Boston Private Value Investors , Equity Research, Equity Research Analyst (2005-2009)
- Pyramid Research, Contract Consultant, Telecom Services (2002-2003)
- Credit Lyonnais Securities (USA), Equity Research, Telecom Services, Vice President (2000-2001)
- Warburg Dillon Read, Equity Research, Telecom Services, Research Associate (1999-2000)
- PaineWebber, Equity Research, Steel and Nonferrous Metals, Research Associate, Editor (1995-1999)